

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF SAULT STE. MARIE	County CHIPPEWA
Fiscal Year End 6/30/06	Opinion Date 10/25/06	Date Audit Report Submitted to State 12/12/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations)

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☒ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143		
Street Address 902 S. HURON STREET, PO BOX 3=250		City CHEBOYGAN	State MI	Zip 49721
Authorizing CPA Signature <i>Annette Eustice, CPA, CGFM</i>		Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 1101019667

CITY OF SAULT STE. MARIE

CHIPPEWA COUNTY



FINANCIAL STATEMENTS

JUNE 30, 2006

CITY OF SAULT STE. MARIE

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INDEPENDENT AUDITORS' REPORT

October 25, 2006

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Sault Ste. Marie**, (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-XV is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Sault Ste. Marie's*** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

A handwritten signature in cursive script, reading "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of City of Sault Ste. Marie's (the "City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Transmittal Letter that is submitted to the City Commission and the City's financial statements, which follow this section.

Financial Highlights

- The City's total net assets at June 30, 2006 were \$75,146,815 consisting of \$53,661,933 in net assets of our governmental activities and \$21,484,882 in net assets of our business-type activities.
- During the fiscal year, we completed 1.99 miles of street reconstruction and associated storm sewers, sidewalks, traffic signals and bike paths with a combined value of approximately \$4.2 million.
- With the completion of the Dillon Street and Washington Way projects the CSO Phase D Project is essentially completed. The City has drawn \$3,384,880 of the \$3,385,000 approved SRF distribution and \$3,127,760 of the \$3,135,000 approved DWRP distribution. The City sold \$790,000 of bonds in November to pay for the local match and to make repairs on the Easterday standpipe. Only engineering has been completed on the standpipe.
- In another debt related transaction, the City purchased mowing equipment for the municipally owned golf course. The \$51,121 loan is to be paid by monthly payments from the golf course.
- The parking structure, funded by a \$1,600,350 Michigan Strategic Fund Grant and a \$6,000,000 bond issue opened in January and is essentially completed.
- The Fort Street Bridge, mainly built with a Critical Bridge Grant, also opened.
- Using DDA funds, the City purchased the lot in the SE corner of Ashmun and Portage for \$111,467.
- With a combination of a \$33,647 donation from the Paul C. Andary Memorial group and Seal Estate Funds, \$69,288 was used to build grandstands at James Field.
- The Police Department purchased a new 4 WD patrol unit for \$25,771 and purchased in-car video units for \$12,441.
- A Buffer Zone Grant purchased \$99,750 worth of pre-approved emergency response equipment for the Police Department.
- The Fire Department was able to purchase a demo ambulance for \$80,070.
- The Water Department continued the water meter replacement program at a cost of \$28,247 and acquired a new pickup for \$14,235.

- The Street Department used \$302,986 of Depreciable Reserve funding to purchase 2 front end loaders, a complete dump truck and a ¾ ton pickup.
- On the expense side, the cost of providing medical insurance to employees finally decreased after increasing 112% between fiscal year 2000 and 2005. Conversion to a program offered by MERS saved the City nearly \$269,000 in the first year even though the program was only in place for 8 months.
- The City continues to be hurt by problems with three major General Fund revenue components. Property tax growth remains slow, State Shared Revenue has continued to decline and low interest rates have dramatically reduced unrestricted interest earnings. This interest rate decline has finally reversed.
- Taxable value increased from \$242,512,276 in 2004-05 to \$254,452,705 in 2005-06.
- Total millage increased from 21.0550 to 21.1823 with Operating millage, Library millage and Solid Waste millage remaining unchanged at 16.8139, .8000 and .4200 respectively. Police/Fire Pension millage increased from 3.0211 to 3.1823.
- 2005-06 revenue sharing was budgeted at \$1,755,091; actual receipts were \$1,730,057, a shortfall of \$25,034.

Revenue Sharing Comparisons

2005-06	\$1,730,057
2004-05	1,749,523
2003-04	1,768,805
2002-03	1,968,064
2001-02	2,068,810
2000-01	2,121,096

If revenue sharing had simply remained at the 2000-01 level, the City would have realized nearly \$1.3 million dollars more in the last five years.

General Fund Interest Comparisons

2005-06	\$ 207,010
2004-05	115,427
2003-04	70,263
2002-03	118,396
2001-02	143,218
2000-01	361,440

While interest income is now at its highest level in 5 years, if it had remained at the 2000-01 level, over \$1.1 million more would have been realized. Similar interest losses have occurred in other funds.

- Because of debt service requirements, increasing energy costs and steadily declining consumption, water and sewer rates increased approximately 1.4 percent between 2004-05 and 2005-06. Our average household is assumed to use 700 cubic feet of water per month. In 2004-05 the combined water and sewer bill, at this consumption rate, went from \$69.57 to \$70.56.

Newly adopted rates for 2006-07 are essentially flat going from \$70.56 to \$70.46, a decrease of .10 cents at 700 cubic feet.

Because consumption may have bottomed out and has shown increases over the last two years, the City Commission essentially froze rates in 2006-07. Given the trend in energy costs and other operating expenses it is doubtful that consumption improvements will outpace increasing costs.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, combining statements for nonmajor governmental funds, nonmajor enterprise funds and internal service funds and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental fund statements tell how general government services, like public safety, were financed in the short-term and what remains for future spending.
 - Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the water and sewer system.
 - Fiduciary fund statements provide information about the financial relationships, like the retirement plan for the City employees, in which the City acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. We have also included a section with the combining statements that provide details about our nonmajor governmental funds, nonmajor enterprise funds, internal service funds and the agency fund.

The information below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the Management's Discussion and Analysis explains the structure and content of each of the statements.

Major Features of City of Sault Ste. Marie's Government-wide and Fund Financial Statements

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, health and welfare, culture and recreation and other. The business-type activities include the water and sewer system, the parking deck and the parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Downtown Development Authority, the Economic Development Corporation, TIFA III (Airport) and the Bayliss Public Library. Although legally separate, these "component units" are incorporated because the City is financially accountable for them.

Government-wide Financial Statements Details:

Scope – Entire City government (except fiduciary funds) and the City's component units.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of activities

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- Some funds are required by State law and by bond covenants.
- The City Commission establishes other funds to control and manage money for particular purposes (like the Seal Trust) or to show that it is properly using certain taxes and grants (like federal aid from the U. S. Department of Housing and Urban Development).

All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or difference) between them.

The City maintains numerous individual funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in the fund balances for the General Fund, Major Street Fund, Local Street Fund and Capital Projects Fund, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and each major special revenue fund.

Governmental Fund Details:

Scope – The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks.

Required financial statements –

- 1) Balance sheet
- 2) Statement of revenues, expenditures, and changes in fund balances

Accounting basis and measurement focus – Modified accrual accounting and current financial resources focus.

Type of asset/liability information – Only assets that are expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.

Type of inflow/outflow information – Revenues for which cash is received during or soon after the end of the year and expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Proprietary Funds

Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities, such as the City's Data Processing Fund.

Proprietary Fund Details:

Scope – Activities the City operates similar to private businesses: the water and sewer system, and the parking facilities.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of revenues, expenses, and changes in net assets
- 3) Statement of cash flows

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during year, regardless of when cash is received or paid.

Fiduciary Funds

Fiduciary funds - The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Fiduciary Fund Details:

Scope – Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for the City employees.

Required financial statements –

- 1) Statement of fiduciary net assets
- 2) Statement of changes in fiduciary net assets

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Financial Analysis of the City as a Whole

Net assets. The City's combined net assets increased by approximately \$4.4 million. Table A-1 shows changes in assets and liabilities for 2005 and 2006 for governmental activities and business-type activities for the City of Sault Ste. Marie.

Table A-1
City's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Current and other assets	\$ 23,444,831	\$ 28,440,507	\$ 10,286,788	\$ 9,439,504	\$ 33,731,619	\$ 37,880,011
Capital assets	<u>40,507,720</u>	<u>40,591,294</u>	<u>48,835,599</u>	<u>41,586,041</u>	<u>89,343,319</u>	<u>82,177,335</u>
Total assets	<u>63,952,551</u>	<u>69,031,801</u>	<u>59,122,387</u>	<u>51,025,545</u>	<u>123,074,938</u>	<u>120,057,346</u>
Liabilities						
Current and other liabilities	5,570,143	5,893,259	409,088	688,235	5,979,231	6,581,494
Long-term debt, outstanding	<u>4,720,475</u>	<u>11,250,559</u>	<u>37,228,417</u>	<u>31,491,781</u>	<u>41,948,892</u>	<u>42,742,340</u>
Total liabilities	<u>10,290,618</u>	<u>17,143,818</u>	<u>37,637,505</u>	<u>32,180,016</u>	<u>47,928,123</u>	<u>49,323,834</u>
Net assets						
Invested in capital assets, net of related debt	36,048,006	29,612,476	11,665,118	10,148,583	47,713,124	39,761,059
Restricted	2,691,920	2,768,123	-	-	2,691,920	2,768,123
Unrestricted	<u>14,922,007</u>	<u>19,507,384</u>	<u>9,819,764</u>	<u>8,696,946</u>	<u>24,741,771</u>	<u>28,204,330</u>
Total net assets	<u>\$ 53,661,933</u>	<u>\$ 51,887,983</u>	<u>\$ 21,484,882</u>	<u>\$ 18,845,529</u>	<u>\$ 75,146,815</u>	<u>\$ 70,733,512</u>

Net assets of the City's governmental activities increased approximately 3% percent to approximately \$53.7 million. However, 72 percent of these assets are restricted as to the purpose they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets showed a \$14.9 million balance at the end of this year.

The City does not include in annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims and to pay for unused employee vacation and sick days. The City will include these amounts in future years' budgets as they come due.

Figures A-3 and A-4 show functional revenues and expenses of the City of Sault Ste. Marie. Table A-2 and the narrative that follows consider the operation of the governmental and business-type activities separately.

Figure A-3
City of Sault Ste. Marie
Functional Revenue

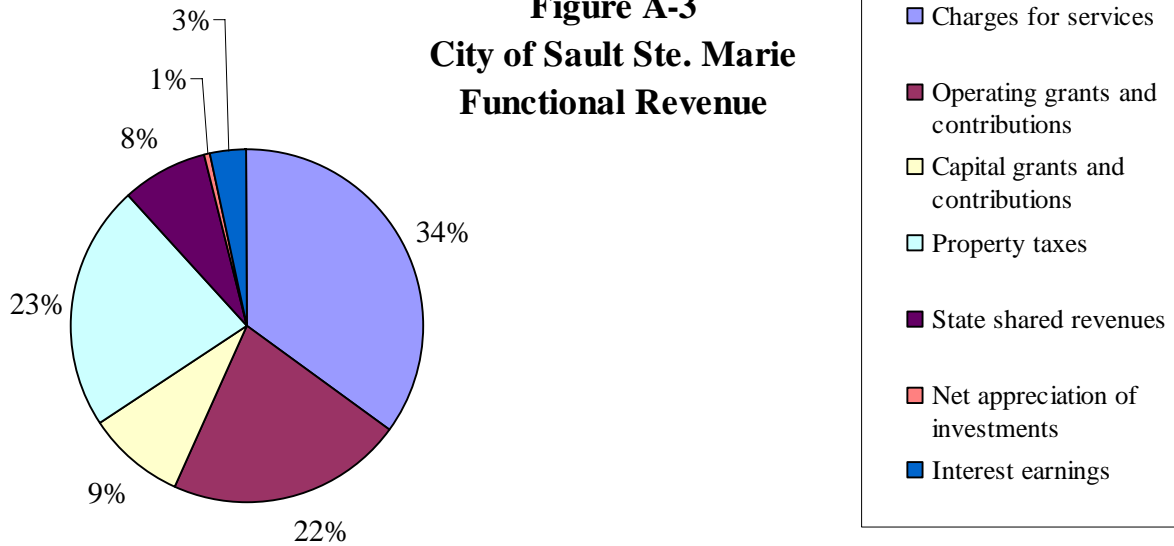


Figure A-4
City of Sault Ste. Marie
Functional Expenses

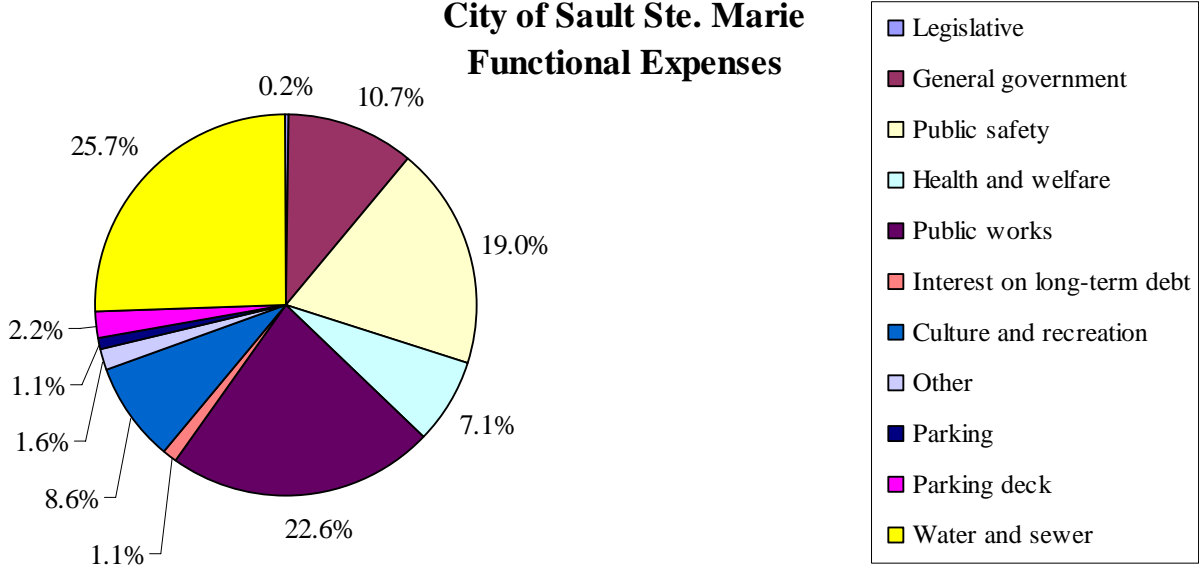


Table A-2 provides a summary of the Revenues and Expenditures and how they impact the net assets for the City of Sault Ste. Marie over a two year period.

Table A-2
Changes in the City of Sault Ste. Marie's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$ 2,327,943	\$ 2,175,510	\$ 5,704,557	\$ 5,730,840	\$ 8,032,500	\$ 7,906,350
Operating grants and contributions	3,980,835	4,303,999	1,007,190	243,715	4,988,025	4,547,714
Capital grants	2,049,042	1,907,539	-	-	2,049,042	1,907,539
General revenues						
Property taxes	5,283,165	5,033,346	-	-	5,283,165	5,033,346
State shared revenue	1,748,224	1,767,258	-	-	1,748,224	1,767,258
Interest earnings	601,784	415,452	191,208	103,548	792,992	519,000
Other	(122,200)	134,436	-	-	(122,200)	134,436
Transfers	<u>(1,065,700)</u>	<u>(642,328)</u>	<u>1,065,700</u>	<u>642,328</u>	<u>-</u>	<u>-</u>
Total revenues	<u>14,803,093</u>	<u>15,095,212</u>	<u>7,968,655</u>	<u>6,720,431</u>	<u>22,771,748</u>	<u>21,815,643</u>
Expenses						
Legislative	43,661	43,668	-	-	43,661	43,668
General government	1,975,098	1,757,428	-	-	1,975,098	1,757,428
Public safety	3,496,966	3,619,577	-	-	3,496,966	3,619,577
Health and welfare	1,307,533	1,195,534	-	-	1,307,533	1,195,534
Public works	4,152,774	3,977,166	-	-	4,152,774	3,977,166
Culture and recreation	1,576,300	1,634,495	-	-	1,576,300	1,634,495
Other expenses	302,233	368,114	-	-	302,233	368,114
Interest on long-term debt	203,753	236,251	-	-	203,753	236,251
Water and sewer	-	-	4,723,466	5,010,601	4,723,466	5,010,601
Parking deck	-	-	397,958	-	397,958	-
Parking	<u>-</u>	<u>-</u>	<u>207,878</u>	<u>203,440</u>	<u>207,878</u>	<u>203,440</u>
Total expenses	<u>13,058,318</u>	<u>12,832,233</u>	<u>5,329,302</u>	<u>5,214,041</u>	<u>18,387,620</u>	<u>18,046,274</u>
Change in net assets	1,744,775	2,262,979	2,639,353	1,506,390	4,384,128	3,769,369
Net assets, beginning of the year, (as restated 2006)	<u>51,917,158</u>	<u>49,625,004</u>	<u>18,845,529</u>	<u>17,339,139</u>	<u>70,762,687</u>	<u>66,964,143</u>
Net assets – end of year	<u>\$ 53,661,933</u>	<u>\$ 51,887,983</u>	<u>\$ 21,484,882</u>	<u>\$ 18,845,529</u>	<u>\$ 75,146,815</u>	<u>\$ 70,733,512</u>

Governmental Activities

Table A-3 presents the cost of the City's five largest programs - general government, public safety, public works, health and welfare, and culture and recreation, as well as each program's net cost (total costs less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

- The cost of all governmental activities was \$13,058,318.
- However, the amount that our taxpayers paid for these activities through City taxes was only \$5,283,165.
- Some of the costs were paid by:
 - Those who directly benefited from the programs (\$2,327,943)
 - Other governments and organizations subsidized certain programs with grants and contributions (\$6,029,877)

Table A-3
Net Cost of City of Sault Ste. Marie's Five Largest Governmental Activities

	Total Cost Activities		Net Cost (Benefit) of Services	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General government	\$ 1,975,098	\$ 1,757,428	\$ 1,174,874	\$ 1,070,463
Public safety	3,496,966	3,619,577	2,874,839	3,180,856
Public works	4,152,774	3,977,166	(203,202)	(849,540)
Health and welfare	1,307,533	1,195,534	20,132	95,998
Culture and Recreation	<u>1,576,300</u>	<u>1,634,495</u>	<u>290,726</u>	<u>303,213</u>
Total	<u>\$ 12,508,671</u>	<u>\$ 12,184,200</u>	<u>\$ 4,157,369</u>	<u>\$ 3,800,990</u>

Business-type Activities

Charges for services revenues of the City's business-type activities decreased slightly from the prior fiscal year. Water and sewer billings decreased less than 1%.

In the Parking Fund, operating revenue fell \$6,975.

The Parking Deck Fund generated revenues after the structure opened in January and a partial year's revenue is included in 2005-06.

In the business-type activities, operating grants and contributions increased from the prior fiscal year. This is mainly as a result of the parking deck capital asset and related debt being contributed to a business-type activity from a governmental activity.

Financial Analysis of the City's Funds

As the City completed the year, the General Fund's fund balance increased \$664,651. This compares favorably to an anticipated decrease in fund balance of \$658,464. Much of the favorable balance is due to capital projects which are not yet completed.

The Major Street Fund's fund balance increased \$214,505 compared to a budgeted decrease of \$136,821. The increase results from a combination of capital projects which are not yet completed and favorable budget results in most operating areas.

The fund balance of the Local Street Fund increased \$255,806 compared to a budgeted decrease of \$645,309. Most of the favorable variance is the result of funded but not yet completed capital projects.

Improved fund balances are due in part to the City's efforts to deal with a structural deficit that occurred through a combination of stagnant or reduced revenues and rapidly escalating health care costs. During the prior fiscal year the City reduced its workforce through a combination of hiring freezes and early retirement incentives.

The conversion from Blue Cross to the MERS – sponsored health care program and the reduced workforce have, at least temporarily, reduced health care costs.

General Fund Budgetary Highlights

Over the course of the year, the City Commission revised the City budget several times. These budget amendments fall into eight major categories:

- 1) Payroll increases due to contract settlements and non-union raises totaling approximately \$31,100.
- 2) Changes in the Dial-A-Ride funding from the State increased revenues and expenses by \$42,600.
- 3) Police related grants for seatbelt enforcement, beat patrols, replacement of bullet proof vests and youth alcohol enforcement increased revenues and expense budgets by \$43,571.
- 4) The Buffer Zone Grant of \$100,000 was used for purchase of pre-approved emergency response equipment.
- 5) Due to changes in State funding, the payment for fire protection of State-owned facilities increased \$47,856.
- 6) The City Commission authorized the purchase of a demo ambulance for \$86,070.
- 7) The Commission accepted airport related grants of \$156,600 and a \$20,000 transfer from TIFA 3 for the local match.
- 8) A \$51,121 loan was used to purchase new moving equipment for the City-owned golf course. The loan is to be repaid by monthly payments from the Country Club, the managers of the golf course.

Actual expenditures and transfers out were approximately 1.8 million under budget. Budgeted but non-expended capital outlay items account for \$1.2 million of the amount under budget. Most cost centers came in under budget. Much of the favorable variance was the result of fringe benefits being \$203,000 under budget in the General Fund. As budgeted capital outlay items are expensed, much of the favorable variance will be eliminated.

Revenue came in approximately \$94,000 over budget. While State shared revenue continues to lag, it is only under budget by approximately \$25,000. Most of the shortfall in the State sources revenue is related to \$363,200 of State Grants for projects not yet completed and project related transfers of \$252,800 for Seal and Osborn Trust funded projects. Until there is significant improvement in the State economy, strain on the City budget will continue. Interest earnings and ambulance revenue both were well over budget.

The ending fund balance is approximately \$1,323,000 higher than anticipated because of the combination of the items noted above.

Capital Assets

At the end of 2006, the City had invested \$89,343,319 in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See the Capital Asset Table below) This amount represents a net increase (including additions and deductions) of \$7,165,984, or 9 percent, over last year.

Table A-4
City of Sault Ste. Marie's Capital Assets
(net of depreciation, where applicable)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>Percent Change 2006-2005</u>
Land and improvements	\$ 4,366,032	\$ 4,331,670	\$ 164,243	\$ 164,243	\$ 4,530,275	\$ 4,495,913	1%
Building and improvements	3,654,873	3,754,223	14,778,705	8,151,840	18,433,578	11,906,063	55%
Equipment	2,527,917	2,380,869	1,100,285	1,122,305	3,628,202	3,503,174	4%
Infrastructure	28,928,113	26,530,612	32,130,875	32,147,653	61,058,988	58,678,265	4%
Construction-in-progress	<u>1,030,785</u>	<u>3,593,920</u>	<u>661,491</u>	<u>-</u>	<u>1,692,276</u>	<u>3,593,920</u>	<u>-53%</u>
Total	<u>\$40,507,720</u>	<u>\$40,591,294</u>	<u>\$48,835,599</u>	<u>\$41,586,041</u>	<u>\$89,343,319</u>	<u>\$82,177,335</u>	<u>9%</u>

The City's fiscal year 2007 capital projects budgets anticipate \$6,359,790 in spending, principally for the W. Portage realignment, E. Spruce – Ord to Shunk and E. Spruce, Shunk to Armory, as well as Ashmun Bay land acquisition and a new shower building at the Aune-Osborn Park. This would be funded by \$2,987,434 of local funds, various grants and a loan for the shower building.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements.

Long-term Debt

At year-end the City had approximately \$41.6 million in bonds and notes outstanding - a decrease of slightly less than 2% from last year - as shown in the table below. More detailed information about the City's long-term liabilities is presented in notes to the financial statements.

New debt during the fiscal year included \$790,000 for the local match on the Dillon/Washington Way Project and rehabilitation of the W. Easterday standpipe and \$51,121 for mowing equipment at the golf course. \$519,182 of previously approved State Revolving Loan and Drinking Water Revolving Loan funds were received. These loan funds were used on the Dillon/Washington Way project.

Table A-5
City of Sault Ste. Marie's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>Percent Change 2006-2005</u>
Notes and installments	\$ 739,714	\$ 753,818	\$ -	\$ -	\$ 739,714	\$ 753,818	-3%
General obligation bonds (backed by the City)	2,425,000	8,805,000	6,000,000	216,159	8,425,000	9,021,159	-7%
Revenue bonds and notes (backed by specific tax and fee revenues)	<u>1,295,000</u>	<u>1,420,000</u>	<u>31,170,481</u>	<u>31,221,299</u>	<u>32,465,481</u>	<u>32,641,299</u>	<u>-1%</u>
Total	<u>\$ 4,459,714</u>	<u>\$10,978,818</u>	<u>\$37,170,481</u>	<u>\$31,437,458</u>	<u>\$41,630,195</u>	<u>\$42,416,276</u>	<u>-2%</u>

Economic Factors and Next Year's Budgets and Rates

- The City's elected and appointed officials considered many factors when setting the fiscal year 2007 General Fund Budget. A continuing reduction in state revenue, small incremental increase in property tax revenue, loss of interest earnings and rapidly escalating health care costs are combining to force officials to re-evaluate how the City does business.
- Efforts to reduce the structural deficit have improved the General Fund balance. The City will need to continue to address this in order to stop drawing down the General Fund's fund balance indefinitely. Services may be eliminated.
- The City has used attrition and retirement incentives to eliminate 14 positions between fiscal 2004 and 2005. A new health insurance carrier to replace Blue Cross in October 2005 will, at least temporarily, reverse the trend of rapidly escalating health care costs. Management and the City's unionized employees are working together in an attempt to control these costs.
- In the Sewer & Water Fund, the cost to a water and sewer customer will go from \$69.57 to \$70.56 for 700 cubic feet, the average consumption for a residential user. This is an increase of 99 cents or 1.43 percent. With the change to a 3-year average for consumption, rather than the previously used 5-year average, 2004-05 actual consumption was much closer to the amount estimated in establishing 2004-05 rates than has been the case previously.

During the budget adoption process the City Commission voted to essentially freeze water and sewer rates for the 2006-07 budget rather than adopting a higher calculated rate.

- The City intends to finance the new Aune-Osborn Park restroom facilities with Act 99 Financing of approximately \$675,000.
- Both the West Portage Avenue relocation project and E. Spruce from Ord to Shunk project are eligible for High Priority Project funding from the Federal Government. In addition, the State has notified the City that both projects are eligible for a Jobs Today match which eliminates the need for much of the local match.

Contacting the City's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Spencer Nebel, City Manager, 325 Court Street, City of Sault Ste. Marie, MI 49783.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 8,559,957	\$ 3,746,968	\$ 12,306,925
Investments	3,340,860	1,163,090	4,503,950
Restricted cash and cash equivalents	-	4,309,035	4,309,035
Restricted investments	2,392,489	-	2,392,489
Receivables, net	9,027,004	554,754	9,581,758
Other	489,111	148,351	637,462
Internal balances	(364,590)	364,590	-
Capital assets not being depreciated	2,711,016	825,734	3,536,750
Capital assets, net of depreciation	37,796,704	48,009,865	85,806,569
Total assets	63,952,551	59,122,387	123,074,938
Liabilities			
Accounts payable and accrued expenses	870,934	409,088	1,280,022
Unearned revenue	4,699,209	-	4,699,209
Noncurrent liabilities			
Due within one year	700,771	2,035,000	2,735,771
Due in more than one year	4,019,704	35,193,417	39,213,121
Total liabilities	10,290,618	37,637,505	47,928,123
Net assets			
Invested in capital assets, net of related debt	36,048,006	11,665,118	47,713,124
Restricted for nonexpendable trust and perpetual care funds	2,691,920	-	2,691,920
Restricted for endowments	-	-	-
Unrestricted	14,922,007	9,819,764	24,741,771
Total net assets	\$ 53,661,933	\$ 21,484,882	\$ 75,146,815

The accompanying notes are an integral part of these basic financial statements.

Component Units				
Downtown Development Authority	Economic Development Corporation	TIFA	Library	
\$ 1,006,741	\$ 147,290	\$ 92,302	\$ 459,633	
474,806	320,000	-	113,529	
-	-	-	-	
-	-	-	159,923	
21,783	2,740	-	25,208	
-	-	-	303	
-	-	-	-	
-	20,000	-	22,822	
-	11,458	-	241,402	
1,503,330	501,488	92,302	1,022,820	
3,682	7,435	-	48,194	
-	-	-	-	
-	-	-	-	
-	6,513	-	20,180	
3,682	13,948	-	68,374	
-	31,458	-	264,224	
-	-	-	-	
-	-	-	159,923	
1,499,648	456,082	92,302	530,299	
\$ 1,499,648	\$ 487,540	\$ 92,302	\$ 954,446	

CITY OF SAULT STE. MARIE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 43,661	\$ -	\$ -	\$ -	\$ (43,661)
General government	1,975,098	141,057	659,167	-	(1,174,874)
Public safety	3,496,966	62,090	489,561	70,476	(2,874,839)
Health and welfare	1,307,533	1,287,401	-	-	(20,132)
Public works	4,152,774	800	2,409,584	1,945,592	203,202
Culture and recreation	1,576,300	830,077	422,523	32,974	(290,726)
Other	302,233	6,518	-	-	(295,715)
Interest on long-term debt	203,753	-	-	-	(203,753)
Total governmental activities	13,058,318	2,327,943	3,980,835	2,049,042	(4,700,498)
Business-type activities					
Water and sewer	4,723,466	5,497,492	7,904	-	781,930
Parking deck	397,958	17,075	999,286	-	618,403
Parking	207,878	189,990	-	-	(17,888)
Total business-type activities	5,329,302	5,704,557	1,007,190	-	1,382,445
Total primary government	\$ 18,387,620	\$ 8,032,500	\$ 4,988,025	\$ 2,049,042	\$ (3,318,053)
Component units					
Downtown Development Authority	725,841	-	402,232	-	(323,609)
Economic Development Corporation	153,367	-	167,327	-	13,960
TIFA	200,426	-	-	-	(200,426)
Library	598,548	75,197	581,528	-	58,177
Total component units	\$ 1,678,182	\$ 75,197	\$ 1,151,087	\$ -	\$ (451,898)

Continued...

CITY OF SAULT STE. MARIE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (4,700,498)	\$ 1,382,445	\$ (3,318,053)
General revenues			
Property taxes	5,283,165	-	5,283,165
State revenues	1,748,224	-	1,748,224
Interest earnings	601,784	191,208	792,992
Net depreciation in market value of investments	(122,200)	-	(122,200)
Transfers - internal activities	(1,065,700)	1,065,700	-
Total general revenues	6,445,273	1,256,908	7,702,181
Change in net assets	1,744,775	2,639,353	4,384,128
Net assets, beginning of year, as previously reported	51,887,983	18,845,529	70,733,512
Prior period adjustment	29,175	-	29,175
Net assets, beginning of year, as restated	51,917,158	18,845,529	70,762,687
Net assets, end of year	\$ 53,661,933	\$ 21,484,882	\$ 75,146,815

The accompanying notes are an integral part of these basic financial statements.

Component Units			
Downtown Development Authority	Economic Development Corporation	TIFA	Library
\$ (323,609)	\$ 13,960	\$ (200,426)	\$ 58,177
506,483	-	253,674	-
-	-	-	-
33,719	-	764	-
-	-	-	-
-	-	-	-
540,202	-	254,438	-
216,593	13,960	54,012	58,177
1,283,055	473,580	38,290	896,269
-	-	-	-
1,283,055	473,580	38,290	896,269
\$ 1,499,648	\$ 487,540	\$ 92,302	\$ 954,446

Concluded

FUND FINANCIAL STATEMENTS

CITY OF SAULT STE MARIE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2006

ASSETS	General	Major Street	Local Street	Capital Projects
Cash and cash equivalents	\$ 1,324,594	\$ 657,997	\$ 778,920	\$ 234,848
Investments	627,633	312,268	369,656	111,453
Accounts receivable	404,520	-	682	8,000
Taxes receivable	4,699,209	-	-	-
Due from other governmental units	585,730	154,017	83,300	350,000
Special assessments receivable	1,225,000	302,340	394,350	-
Inventory	29,568	-	-	-
Prepaid expenditures	352,922	-	-	-
Restricted investments	-	-	-	-
Total assets	\$ 9,249,176	\$ 1,426,622	\$ 1,626,908	\$ 704,301
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 123,169	\$ -	\$ 17,465	\$ 326,823
Accrued expenses	124,127	-	-	-
Deferred revenue	5,924,209	302,340	394,350	-
Due to other funds	-	-	-	358,000
Total liabilities	6,171,505	302,340	411,815	684,823
Fund balances				
Reserved for inventory and prepaid expenses	382,490	-	-	-
Reserved reported in permanent funds	-	-	-	-
Unreserved				
Designated				
Aune-Osborn building reserve	68,812	-	-	-
Carbide Dock	299,292	-	-	-
Fire equipment	292,470			
Fort bridge reassembly	250,000			
Other capital projects	450,879			
Subsequent years' expenditures	266,605	7,903	134,500	-
Reported in special revenue funds	-	-	-	-
Reported in capital project funds	-	-	-	19,478
Undesignated	1,067,123	1,116,379	1,080,593	-
Undesignated reported in special revenue funds	-	-	-	-
Total fund balances	3,077,671	1,124,282	1,215,093	19,478
Total liabilities and fund balances	\$ 9,249,176	\$ 1,426,622	\$ 1,626,908	\$ 704,301

Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,629,436	\$ 7,625,795
1,476,521	2,897,531
23,856	437,058
-	4,699,209
12,435	1,185,482
778,888	2,700,578
-	29,568
-	352,922
2,392,489	2,392,489
\$ 9,313,625	\$ 22,320,632

\$ 100,592	\$ 568,049
30,432	154,559
778,888	7,399,787
-	358,000
909,912	8,480,395

-	382,490
2,691,920	2,691,920
-	68,812
-	299,292
	292,470
	250,000
	450,879
-	409,008
219,888	219,888
5,028,946	5,048,424
-	3,264,095
462,959	462,959
8,403,713	13,840,237
\$ 9,313,625	\$ 22,320,632

Continued...

CITY OF SAULT STE. MARIE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2006

Reconciliation of fund balances on the balance sheet for governmental funds to the statement of net assets

Fund balances - total governmental funds \$ 13,840,237

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add - capital assets (net) 39,374,295

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add - deferred revenue on special assessments receivable 2,700,578

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in internal service funds 2,556,958

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable (250,215)

Deduct - bonds and notes payable (4,459,714)

Deduct - accrued interest on bonds and notes payable (100,206)

Net assets of governmental activities **\$ 53,661,933**

Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	General	Major Street	Local Street	Capital Projects
Revenues				
Taxes	\$ 5,048,092	\$ -	\$ -	\$ -
Special assessments	-	61,026	83,154	-
Federal sources	247,369	-	-	1,600,350
State sources	1,981,009	1,461,526	374,425	-
Local sources	163,625	-	-	3,778
Licenses and permits	45,655	-	-	-
Charges for services	2,256,359	-	-	-
Rental	-	-	-	-
Interest	207,010	47,547	58,383	60,841
Miscellaneous	179,687	96	1,785	-
Total revenues	10,128,806	1,570,195	517,747	1,664,969
Expenditures				
Current				
Legislative	43,661	-	-	-
General government	1,708,927	-	-	247,900
Public safety	3,354,129	-	-	-
Health and welfare	1,307,533	-	-	-
Public works	533,061	1,612,848	1,134,965	-
Culture and recreation	1,146,935	-	-	-
Other	300,033	-	-	-
Capital outlay	553,402	-	-	6,003,063
Debt service				
Principal	89,625	57,500	67,500	-
Interest and fiscal charges	104,211	43,554	30,576	-
Total expenditures	9,141,517	1,713,902	1,233,041	6,250,963
Revenues over (under) expenditures	987,289	(143,707)	(715,294)	(4,585,994)
Other financing sources (uses)				
Debt proceeds	51,121	-	-	-
Bond discount	-	-	-	-
Net depreciation in fair value of investments	-	-	-	-
Local contribution	111,467	-	-	-
Transfers in	88,261	358,212	971,100	-
Transfers out	(573,487)	-	-	(826,080)
Total other financing sources (uses)	(322,638)	358,212	971,100	(826,080)
Net change in fund balances	664,651	214,505	255,806	(5,412,074)
Fund balances, beginning of year, as previously reported	2,413,020	909,777	959,287	5,431,552
Prior period adjustment	-	-	-	-
Fund balances, beginning of year, as restated	2,413,020	909,777	959,287	5,431,552
Fund balances, end of year	\$ 3,077,671	\$ 1,124,282	\$ 1,215,093	\$ 19,478

	Nonmajor Governmental Funds	Total Governmental Funds
\$	235,073	\$ 5,283,165
	204,798	348,978
	-	1,847,719
	733,451	4,550,411
	700,276	867,679
	-	45,655
	40,165	2,296,524
	91,818	91,818
	228,003	601,784
	35,856	217,424
	2,269,440	16,151,157
	-	43,661
	-	1,956,827
	-	3,354,129
	-	1,307,533
	164,429	3,445,303
	82,098	1,229,033
	15,531	315,564
	2,023,263	8,579,728
	355,600	570,225
	33,276	211,617
	2,674,197	21,013,620
	(404,757)	(4,862,463)
	1,309,182	1,360,303
	(5,417)	(5,417)
	(122,200)	(122,200)
	-	111,467
	466,124	1,883,697
	(1,641,235)	(3,040,802)
	6,454	187,048
	(398,303)	(4,675,415)
	8,772,841	18,486,477
	29,175	29,175
	8,802,016	18,515,652
\$	8,403,713	\$ 13,840,237

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

**Reconciliation of the statement of revenues, expenditures and changes in fund balance of governmental funds
to the statement of activities**

Net change in fund balances - total governmental funds \$ (4,675,415)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	2,128,526
Deduct - depreciation expense	(2,356,699)

Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct - special assessment receipts	(348,978)
Add - current year special assessments	254,087

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - note proceeds	(51,121)
Add - principal payments on long-term liabilities	570,225
Add - reclassification of long-term liability	6,000,000

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add - change in net assets from governmental activities accounted for in internal service funds	207,139
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in compensated absences	9,147
Add - decrease in accrued interest	7,864

Change in net assets of governmental activities	\$ 1,744,775
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Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2006

	Budget			Variance With Amended Budget Positive Negative
	Original	Amended	Actual	
Revenues				
Taxes	\$ 5,018,517	\$ 5,018,517	\$ 5,048,092	\$ 29,575
Federal sources	-	123,963	247,369	123,406
State sources	2,015,591	2,411,779	1,981,009	(430,770)
Local sources	86,000	143,750	163,625	19,875
Licenses and permits	48,200	48,200	45,655	(2,545)
Charges for services	1,955,740	1,955,740	2,256,359	300,619
Interest	125,500	125,500	207,010	81,510
Miscellaneous	207,509	207,509	179,687	(27,822)
Total revenues	9,457,057	10,034,958	10,128,806	93,848
Expenditures				
Legislative				
City council	45,130	45,130	43,661	1,469
General government				
City manager	208,373	209,133	195,803	13,330
Clerk	184,535	185,555	170,678	14,877
Assessor	134,205	137,335	132,301	5,034
Attorney	80,930	81,719	67,807	13,912
Finance	361,650	364,360	350,992	13,368
Cemetery	107,855	107,855	101,251	6,604
Non-departmental	641,749	684,349	690,095	(5,746)
Total general government	1,719,297	1,770,306	1,708,927	61,379
Public safety				
Police department	1,938,650	1,954,683	1,860,112	94,571
Fire department	893,540	898,136	878,364	19,772
Sane	77,700	77,700	62,749	14,951
PA 302	5,800	5,800	4,719	1,081
Youth/Alcohol	-	16,965	4,069	12,896
Cops in schools	65,710	65,710	54,389	11,321
Inspection	316,785	320,045	268,494	51,551
Planning and development	224,020	226,675	221,233	5,442
Total public safety	3,522,205	3,565,714	3,354,129	211,585
Health and welfare				
Ambulance	1,205,389	1,210,414	1,307,533	(97,119)
Public works				
Engineering	273,570	278,320	263,985	14,335
Sidewalks and alleys	119,140	119,140	84,458	34,682
Composting	93,900	93,900	109,269	(15,369)
Airport	54,000	54,000	49,135	4,865
Industrial park	22,700	26,200	26,214	(14)
Total public works	563,310	571,560	533,061	38,499

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2006

	Budget			Variance With Amended Budget Positive (Negative)
	Original	Amended	Actual	
Culture and recreation				
Parks	\$ 301,740	\$ 305,507	\$ 286,758	\$ 18,749
Marina	6,000	6,000	5,404	596
Kemp Marina	148,000	148,000	135,720	12,280
Pullar	293,025	323,025	296,164	26,861
Recreation	350,705	350,705	320,529	30,176
Historic homes	9,050	9,050	7,054	1,996
Minneapolis Woods	90,113	90,113	72,015	18,098
Osborn	14,200	17,700	23,291	(5,591)
Total culture and recreation	1,212,833	1,250,100	1,146,935	103,165
Other				
Insurance and bonds	60,000	60,000	15,103	44,897
General appropriations	278,000	257,545	227,133	30,412
Community promotion	70,575	76,095	57,797	18,298
Total other	408,575	393,640	300,033	93,607
Capital outlay	723,080	1,766,768	553,402	1,213,366
Debt service				
Principal	77,759	107,384	89,625	17,759
Interest	85,525	85,525	104,211	(18,686)
Total debt service	163,284	192,909	193,836	(927)
Total expenditures	9,563,103	10,766,541	9,141,517	1,625,024
Revenues over (under) expenditures	(106,046)	(731,583)	987,289	1,718,872
Other financing sources (uses)				
Loan proceeds	-	375,000	51,121	(323,879)
Local contribution	-	-	111,467	111,467
Transfers in	226,000	500,497	88,261	(412,236)
Transfers out	(774,760)	(802,378)	(573,487)	228,891
Total other financing sources (uses)	(548,760)	73,119	(322,638)	(395,757)
Net change in fund balance	(654,806)	(658,464)	664,651	1,323,115
Fund balances, beginning of year	2,413,020	2,413,020	2,413,020	-
Fund balances, end of year	\$ 1,758,214	\$ 1,754,556	\$ 3,077,671	\$ 1,323,115

Concluded

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - MAJOR STREET FUND**

FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Special assessments	\$ 45,000	\$ 45,000	\$ 61,026	\$ 16,026
State sources	998,500	1,661,500	1,461,526	(199,974)
Interest	20,600	20,600	47,547	26,947
Miscellaneous	350	350	96	(254)
Total revenues	1,064,450	1,727,450	1,570,195	(157,255)
Expenditures				
Public works	1,619,250	2,171,429	1,612,848	558,581
Debt service				
Principal	57,500	57,500	57,500	-
Interest	43,554	43,554	43,554	-
Total expenditures	1,720,304	2,272,483	1,713,902	558,581
Revenues over (under) expenditures	(655,854)	(545,033)	(143,707)	401,326
Other financing sources (uses)				
Transfers in	364,630	408,212	358,212	(50,000)
Transfers out	(10,000)	-	-	-
Total other financing sources (uses)	354,630	408,212	358,212	(50,000)
Net change in fund balance	(301,224)	(136,821)	214,505	351,326
Fund balances, beginning of year	909,777	909,777	909,777	-
Fund balances, end of year	\$ 608,553	\$ 772,956	\$ 1,124,282	\$ 351,326

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - LOCAL STREET FUND**

FOR THE YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Special assessments	\$ 58,000	\$ 58,000	\$ 83,154	\$ 25,154
State sources	420,690	420,690	374,425	(46,265)
Interest	21,000	21,000	58,383	37,383
Miscellaneous	-	-	1,785	1,785
Total revenues	499,690	499,690	517,747	18,057
Expenditures				
Public works	1,461,570	1,999,525	1,134,965	864,560
Debt service				
Principal	67,500	67,500	67,500	-
Interest	30,576	30,576	30,576	-
Total expenditures	1,559,646	2,097,601	1,233,041	864,560
Revenues over (under) expenditures	(1,059,956)	(1,597,911)	(715,294)	882,617
Other financing sources (uses)				
Transfers in	1,048,000	971,100	971,100	-
Transfers out	(14,500)	(18,498)	-	18,498
Total other financing sources	1,033,500	952,602	971,100	18,498
Net change in fund balance	(26,456)	(645,309)	255,806	901,115
Fund balances, beginning of year	959,287	959,287	959,287	-
Fund balances, end of year	\$ 932,831	\$ 313,978	\$ 1,215,093	\$ 901,115

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2006

	Business-type Activities			Governmental Activities	
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 2,273,145	\$ 279,851	\$ 1,193,972	\$ 3,746,968	\$ 934,162
Investments	1,079,027	10,548	73,515	1,163,090	443,329
Accounts receivable	436,787	-	834	437,621	4,677
Special assessment receivable	117,133	-	-	117,133	-
Due from other funds	-	358,000	-	358,000	-
Inventories	148,351	-	-	148,351	106,621
Restricted cash and cash equivalents	4,309,035	-	-	4,309,035	-
Total current assets	8,363,478	648,399	1,268,321	10,280,198	1,488,789
Noncurrent assets					
Capital assets not being depreciated	669,262	-	156,472	825,734	112,294
Capital assets, net of depreciation	41,140,955	6,857,711	11,199	48,009,865	1,021,131
Total noncurrent assets	41,810,217	6,857,711	167,671	48,835,599	1,133,425
Total assets	50,173,695	7,506,110	1,435,992	59,115,797	2,622,214
Liabilities					
Current liabilities					
Accounts payable	15,152	170	6,435	21,757	48,120
Accrued expenses	344,123	43,208	-	387,331	-
Current portion of bonds payable	1,955,000	80,000	-	2,035,000	-
Total current liabilities	2,314,275	123,378	6,435	2,444,088	48,120
Noncurrent liabilities					
Compensated absences	54,114	-	3,822	57,936	10,546
Bonds payable, net of current portion	29,215,481	5,920,000	-	35,135,481	-
Total noncurrent liabilities	29,269,595	5,920,000	3,822	35,193,417	10,546
Total liabilities	31,583,870	6,043,378	10,257	37,637,505	58,666
Net assets					
Invested in capital assets net of related debt	10,639,736	857,711	167,671	11,665,118	1,133,425
Unrestricted	7,950,089	605,021	1,258,064	9,813,174	1,430,123
Total net assets	\$ 18,589,825	\$ 1,462,732	\$ 1,425,735	\$ 21,478,292	\$ 2,563,548

Reconciliation of net assets on the statement of net assets for enterprise funds to net assets of business-type activities on the statement of net assets

Net assets - total enterprise funds \$ 21,478,292

Amounts reported for business-type activities in the statement of net assets are different because an internal service fund is used by management to charge the costs of certain DPW site activities to individual proprietary funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.

Add - portion of internal service funds net assets attributable to business-type funds 6,590

Net assets of business-type activities \$ 21,484,882

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities				Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues					
Charges for services	\$ 5,497,492	\$ 17,075	\$ 189,990	\$ 5,704,557	\$ 1,040,252
Operating expenses					
Staff support	900,641	-	-	900,641	-
Pump station	505,374	-	-	505,374	-
Transmission and distribution	381,460	-	-	381,460	-
Operating meters	113,606	-	-	113,606	-
Sewage treatment	670,353	-	-	670,353	-
Parking lot expenses	-	-	200,941	200,941	-
Parking deck expenses	-	23,627	-	23,627	-
Depreciation	1,078,049	69,270	3,659	1,150,978	255,494
Operation of equipment	-	-	-	-	880,605
Miscellaneous	8,928	-	-	8,928	-
Total operating expenses	3,658,411	92,897	204,600	3,955,908	1,136,099
Operating income (loss)	1,839,081	(75,822)	(14,610)	1,748,649	(95,847)
Nonoperating revenues (expenses)					
Interest revenue	174,278	4,981	11,949	191,208	35,763
Miscellaneous revenue	171,485	-	-	171,485	179,484
Local contribution	(163,581)	999,286	-	835,705	-
Interest expense	(1,071,999)	(305,061)	-	(1,377,060)	-
Total nonoperating revenues (expenses)	(889,817)	699,206	11,949	(178,662)	215,247
Income (loss) before transfers	949,264	623,384	(2,661)	1,569,987	119,400
Transfers					
Transfers in	560,200	839,348	148,631	1,548,179	91,405
Transfers out	(251,379)	-	(231,100)	(482,479)	-
Total transfers	308,821	839,348	(82,469)	1,065,700	91,405
Change in net assets	1,258,085	1,462,732	(85,130)	2,635,687	210,805
Net assets, beginning of year	17,331,740	-	1,510,865	18,842,605	2,352,743
Net assets, end of year	\$ 18,589,825	\$ 1,462,732	\$ 1,425,735	\$ 21,478,292	\$ 2,563,548

**Reconciliation of the statement of revenues, expenses and changes in net assets of enterprise funds
to the statement of activities**

Change in net assets - all enterprise funds \$ 2,635,687

Amounts reported for business-type activities in the statement of net assets are different because an internal service fund is used by management to charge the costs of certain activities to individual enterprise funds. The net revenue (expense) attributable to that fund is reported with business-type activities.

Add - change in net assets 3,666

Change in net assets of business-type activities **\$ 2,639,353**

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities			Governmental Activities	
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities					
Cash collected from customers	\$ 5,572,144	\$ 17,075	\$ 191,630	\$ 5,780,849	\$ -
Cash collected from other funds	-	-	-	-	1,038,528
Cash paid for employee wages and benefits	(1,059,522)	(4,230)	(117,286)	(1,181,038)	(150,651)
Cash paid for other operating and administrative expenses	(1,842,997)	(19,227)	(77,829)	(1,940,053)	(724,857)
Net cash provided by (used in) operating activities	2,669,625	(6,382)	(3,485)	2,659,758	163,020
Cash flows from noncapital financing activities					
Transfers in	560,200	839,348	148,631	1,548,179	91,405
Transfers out	(251,379)	-	(231,100)	(482,479)	-
Payment of amounts due from other funds	-	(358,000)	-	(358,000)	-
Miscellaneous revenue	171,485	-	-	171,485	179,484
Net cash provided by (used in) noncapital financing activities	480,306	481,348	(82,469)	879,185	270,889
Cash flows from capital and related financing activities					
Interest payments	(1,071,999)	(261,853)	-	(1,333,852)	-
Principal payments	(1,576,159)	-	-	(1,576,159)	-
Local contributions	-	72,305	-	72,305	-
Special assessment collections	6,988	-	-	6,988	-
Purchase of property and equipment	(327,954)	-	-	(327,954)	(400,093)
Net cash used in capital and related financing activities	(2,969,124)	(189,548)	-	(3,158,672)	(400,093)
Cash flows from investing activities					
Purchase of investments	(1,079,027)	(10,548)	(73,515)	(1,163,090)	(443,329)
Interest revenue	174,278	4,981	11,949	191,208	35,763
Net cash used in investing activities	(904,749)	(5,567)	(61,566)	(971,882)	(407,566)
Net increase (decrease) in cash and cash equivalents	(723,942)	279,851	(147,520)	(591,611)	(373,750)
Cash and cash equivalents, beginning of year	7,306,122	-	1,341,492	8,647,614	1,307,912
Cash and cash equivalents, end of year	\$ 6,582,180	\$ 279,851	\$ 1,193,972	\$ 8,056,003	\$ 934,162

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities				Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating income (loss)	\$ 1,839,081	\$ (75,822)	\$ (14,610)	\$ 1,748,649	\$ (95,847)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	1,078,049	69,270	3,659	1,150,978	255,494
Changes in operating assets and liabilities which provided (used) cash					
Accounts receivable	74,652	-	1,640	76,292	(1,724)
Inventory	2,581	-	-	2,581	(18,141)
Accounts payable	(14,987)	170	6,435	(8,382)	25,071
Accrued expenses	(313,973)	-	-	(313,973)	(1,833)
Compensated absences	4,222	-	(609)	3,613	-
Net cash provided by (used in) operating activities	\$ 2,669,625	\$ (6,382)	\$ (3,485)	\$ 2,659,758	\$ 163,020

Concluded

Non-cash capital and related financing transactions

Transfer of capital assets from the CSO D capital projects fund	<u>\$ 1,145,601</u>	<u>\$ 1,145,601</u>
Transfer of bond proceeds from the CSO D capital projects fund	<u>\$ 1,309,182</u>	<u>\$ 1,309,182</u>
Transfer of capital assets from the Capital Projects fund	<u>\$ 6,926,981</u>	<u>\$ 6,926,981</u>
Transfer of bond from the Capital Projects fund	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE MARIE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Employee Benefits Plan</u>	<u>Agency Fund Current Tax Collection</u>
Assets		
Cash and cash equivalents	\$ -	\$ 108,630
Investments	-	-
Taxes receivable	830,133	-
Restricted investments		
Money market	679,333	2,602
Mutual funds	1,619,867	2,665
Corporate bonds	505,579	161,097
Government bonds	1,579,146	-
Equity securities	<u>7,437,072</u>	<u>373,629</u>
Total assets	<u>12,651,130</u>	<u>\$ 648,623</u>
Liabilities		
Accrued liabilities	-	\$ 543,027
Due to other governmental units	-	105,596
Unearned revenue	<u>830,133</u>	<u>-</u>
Total liabilities	<u>830,133</u>	<u>\$ 648,623</u>
Net assets held in trust for pension benefits	<u>\$ 11,820,997</u>	

The accompanying notes are an integral part of these basic financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
EMPLOYEE BENEFIT PLAN
FOR THE YEAR ENDED JUNE 30, 2006

Additions to net assets attributed to	
Contributions	
Tax revenue/ employer contribution	\$ 761,823
Employee	<u>144,611</u>
Total contributions	<u>906,434</u>
Net appreciation in fair value of investments	812,976
Interest and dividends	<u>334,782</u>
Total additions	<u>2,054,192</u>
Deductions from net assets attributed to	
Benefit payments	1,406,228
Administrative expenses	<u>96,775</u>
Total deductions	<u>1,503,003</u>
Change in net assets	551,189
Net assets, beginning of year	<u>11,269,808</u>
Net assets, end of year	<u>\$ 11,820,997</u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Sault Ste. Marie* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units. The Downtown Development Authority (DDA)/TIFA (TIFA III), Economic Development Corporation (EDC), and Bayliss Public Library (Library), are reported in separate columns to emphasize that they are legally separate from the City. The members of the governing Boards are appointed by the City Commission and the budgets and expenditures must be approved by the City Commission. The City also has the ability to significantly influence operations of these organizations. Separate financial statements of the DDA/TIFA III have not been prepared. Separate financial statements of the EDC are available at Economic Development Corporation, 1301 W. Easterday, Sault Ste. Marie, MI 49783. Separate financial statements of the Library are available at Bayliss Public Library, 541 Library Drive, Sault Ste. Marie, MI 49783.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street and highway purposes.

The *Capital Projects Fund* accounts for the activity related to the City's new parking deck and various other projects.

The City reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the operation, maintenance and development of water and sewer facilities.

The *Parking Deck Fund* accounts for the operation and maintenance of the downtown parking deck.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent Funds. The Seal Trust, Governor Osborn Trust, and Cemetery Perpetual Care Trust are the City's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. These funds account for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Pension Trust Fund. This fund accounts for the activities of the City's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

Agency Fund. This fund accounts for assets held for other governments and employees in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and investments

Most cash balances in the various funds are pooled and invested in money market accounts, Municipal Investment accounts and U.S. Government Securities and Treasury Notes. Interest earned with pooled cash is allocated to each of the funds based on the fund's average equity balance. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The cash resources of the debt service and trust and agency funds are invested separately as required by law.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorizes the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits and an employer benefit plan for pension trust investments.

2. Receivables and payables

All receivables are reported at their gross value, except the General Fund ambulance receivable which is shown net of an estimated allowance for uncollectible accounts of \$152,988.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

3. *Property taxes*

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Chippewa County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

4. *Inventories*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

5. *Restricted assets*

Certain resources are set aside for repayment of the City's Water and Sewer Enterprise Fund revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Marina	7-40
Buildings and building improvements	15-40
Public domain infrastructure	10-50
Water and wastewater system infrastructure	20-75
Vehicles	5-20
Machinery and equipment	5-25

7. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

8. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

9. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF SAULT STE. MARIE
NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the functional level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 12,306,925	\$ 1,705,966	\$ 14,012,891
Investments	4,503,950	908,335	5,412,285
Restricted cash and cash equivalents	4,309,035	-	4,309,035
Restricted investments	<u>2,392,489</u>	<u>159,923</u>	<u>2,552,412</u>
Total Statement of Net Assets	<u>\$ 23,512,399</u>	<u>\$ 2,774,224</u>	<u>26,286,623</u>
Statement of Fiduciary Net Assets			
Cash and cash equivalents			108,630
Restricted investments			<u>12,360,990</u>
Total deposits and investments			<u>\$ 38,756,243</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

A reconciliation of cash and cash equivalents and investments as shown above to the captions used for note disclosures is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 25,285,036
Investments	13,468,480
Cash on hand	<u>2,727</u>
Total deposits	<u>\$ 38,756,243</u>

The City is authorized by state statutes to invest surplus funds in the following:

- (a) Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In banker's acceptances of United States banks.
- (e) Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City investment policy allows for all of these types of investments.

Certain investments are accounted for in the Employee Benefits Fund. These investments are allowed per the Public Employees Retirement System Investment Act, Public Act 314.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City chooses to aggregate its investments for disclosure purposes. As of year end, the City had the following investments:

Investments at fair value, as determined by quoted market price.

U.S. Government securities	\$ 2,607,218
Corporate bonds	666,677
Money Market Fund	680,682
Equity securities	7,940,328
Mutual funds	<u>1,573,575</u>
Total investments	<u>\$ 13,468,480</u>

Certificates of deposit of \$10,857,208 are considered bank deposits for risk purposes.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

	<u>Investment Maturities (fair value by years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government securities	\$2,607,218	\$ 482,229	\$ 489,394	\$ -	\$1,635,595
Corporate bonds	<u>666,677</u>	<u>31,997</u>	<u>262,478</u>	<u>212,903</u>	<u>159,299</u>
Total	<u>\$3,273,895</u>	<u>\$ 514,226</u>	<u>\$ 751,872</u>	<u>\$ 212,903</u>	<u>\$1,794,894</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for investments are identified as follows for investments held at year end.

AAA	\$ 2,130,685
AA	91,258
A	284,263
BAA	275,305
BA	13,979
Not rated	<u>478,405</u>

\$ 3,273,895

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$25,227,377 of the City's bank balance of \$26,049,599 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterpart the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. As of June 30, 2006, the City has no custodial credit risk exposure for any of its investments.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of June 30, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts receivable	\$ 441,735	\$ 437,621	\$ 27,948
Special assessment receivable, due within one year	111,658	3,477	11,594
Special assessment receivable, due in more than one year	2,588,920	113,656	10,189
Taxes receivable	4,699,209	-	-
Due from other governmental units	<u>1,185,482</u>	<u>-</u>	<u>-</u>
Total receivables, net	<u>\$ 9,027,004</u>	<u>\$ 554,754</u>	<u>\$ 49,731</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$7,399,787, of which \$4,699,209 is for taxes and \$2,700,578 is for special assessments.

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2006:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,565,906	\$ 114,325	\$ -	\$ 1,680,231
Construction-in-process	<u>3,593,920</u>	<u>841,840</u>	<u>(3,404,975)</u>	<u>1,030,785</u>
Total non-depreciated assets	<u>5,159,826</u>	<u>956,165</u>	<u>(3,404,975)</u>	<u>2,711,016</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Buildings	\$ 6,146,705	\$ 7,064,440	\$ (6,926,981)	\$ 6,284,164
Land improvements	3,386,047	47,185	-	3,433,232
Equipment	6,944,951	638,562	-	7,583,513
Infrastructure	<u>43,676,349</u>	<u>4,209,127</u>	<u>(54,904)</u>	<u>47,830,572</u>
Total capital assets being depreciated	<u>60,154,052</u>	<u>11,959,314</u>	<u>(6,981,885)</u>	<u>65,131,481</u>
Less accumulated depreciation for				
Buildings	(2,392,482)	(236,809)	-	(2,629,291)
Land improvements	(620,283)	(127,148)	-	(747,431)
Equipment	(4,564,082)	(491,514)	-	(5,055,596)
Infrastructure	<u>(17,145,737)</u>	<u>(1,756,722)</u>	<u>-</u>	<u>(18,902,459)</u>
Total accumulated depreciation	<u>(24,722,584)</u>	<u>(2,612,193)</u>	<u>-</u>	<u>(27,334,777)</u>
Total capital assets being depreciated, net	<u>35,431,468</u>	<u>9,347,121</u>	<u>(6,981,885)</u>	<u>37,796,704</u>
Governmental activities capital assets, net	<u>\$ 40,591,294</u>	<u>\$ 10,303,286</u>	<u>\$(10,386,860)</u>	<u>\$ 40,507,720</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 164,243	\$ -	\$ -	\$ 164,243
Construction-in-progress	<u>-</u>	<u>661,491</u>	<u>-</u>	<u>661,491</u>
Total non-depreciated assets	<u>164,243</u>	<u>661,491</u>	<u>-</u>	<u>825,734</u>
Capital assets being depreciated				
Buildings and improvements	16,617,868	6,926,981	-	23,544,849
Equipment	2,450,327	42,482	-	2,492,809
Water and sewer	<u>39,111,269</u>	<u>769,582</u>	<u>-</u>	<u>39,880,851</u>
Total capital assets being depreciated	<u>58,179,464</u>	<u>7,739,045</u>	<u>-</u>	<u>65,918,509</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Buildings and improvements	\$ (8,466,028)	\$ (300,116)	\$ -	\$ (8,766,144)
Equipment	(1,328,022)	(64,502)	-	(1,392,524)
Water and sewer	<u>(6,963,616)</u>	<u>(786,360)</u>	<u>-</u>	<u>(7,749,976)</u>
 Total accumulated depreciation	 <u>(16,757,666)</u>	 <u>(1,150,978)</u>	 <u>-</u>	 <u>(17,908,644)</u>
 Total capital assets being depreciated, net	 <u>41,421,798</u>	 <u>6,588,067</u>	 <u>-</u>	 <u>48,009,865</u>
 Business-type activities capital assets, net	 <u>\$ 41,586,041</u>	 <u>\$ 7,249,558</u>	 <u>\$ -</u>	 <u>\$ 48,835,599</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 26,312
Public safety	133,256
Public works	1,801,577
Culture and recreation	395,554
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>255,494</u>
Total depreciation expense – governmental activities	<u>\$ 2,612,193</u>
 Business-type activities	
Water and sewer	\$ 1,078,049
Parking deck	69,270
Parking	<u>3,659</u>
Total depreciation expense – business-type activities	<u>\$ 1,150,978</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Component Unit – Economic Development Corporation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Vehicles	15,771	-	-	15,771
Equipment	<u>12,454</u>	<u>8,445</u>	<u>-</u>	<u>20,899</u>
Subtotal	<u>28,225</u>	<u>8,445</u>	<u>-</u>	<u>36,670</u>
Accumulated depreciation				
Vehicles	(9,462)	(3,155)	-	(12,617)
Equipment	<u>(12,158)</u>	<u>(437)</u>	<u>-</u>	<u>(12,595)</u>
Total accumulated depreciation	<u>(21,620)</u>	<u>(3,592)</u>	<u>-</u>	<u>(25,212)</u>
Capital assets being depreciated, net	<u>6,605</u>	<u>4,853</u>	<u>-</u>	<u>11,458</u>
Component Unit - EDC capital assets, net	<u>\$ 26,605</u>	<u>\$ 4,853</u>	<u>\$ -</u>	<u>\$ 31,458</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Component Unit – Bayliss Public Library

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 22,822	\$ -	\$ -	\$ 22,822
Capital assets being depreciated				
Buildings	474,260	943	-	475,203
Land improvements	15,250	-	-	15,250
Furniture and equipment	168,401	4,556	-	172,957
Book collection	<u>269,328</u>	<u>54,140</u>	<u>-</u>	<u>323,468</u>
Total capital assets being depreciated	<u>927,239</u>	<u>59,639</u>	<u>-</u>	<u>986,878</u>
Less accumulated depreciation for				
Buildings	(349,767)	(11,968)	-	(361,735)
Land improvements	(15,250)	-	-	(15,250)
Furniture and equipment	(126,286)	(16,899)	-	(143,185)
Book collection	<u>(215,761)</u>	<u>(9,545)</u>	<u>-</u>	<u>(225,306)</u>
Total accumulated depreciation	<u>(707,064)</u>	<u>(38,412)</u>	<u>-</u>	<u>(745,476)</u>
Total capital assets being depreciated, net	<u>220,175</u>	<u>21,227</u>	<u>-</u>	<u>241,402</u>
Component Unit - Library capital assets, net	<u>\$ 242,997</u>	<u>\$ 21,227</u>	<u>\$ -</u>	<u>\$ 264,224</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of June 30, 2006:

	Governmental Activities	Business-type Activities	Component Units
Accounts payable	\$ 616,169	\$ 21,757	\$ 36,838
Accrued expenses	<u>254,765</u>	<u>387,331</u>	<u>8,531</u>
Total accounts payables and accrued expenses	<u>\$ 870,934</u>	<u>\$ 409,088</u>	<u>\$ 45,369</u>

E. Interfund receivables, payables and transfers

At June 30, 2006, an interfund receivable of \$358,000 existed in the Parking Deck Enterprise Fund and an interfund payable of \$358,000 existed in the Capital Projects Fund. These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

Transfers to and from component units were made to cover debt payments, indirect operating costs, and local match of grants.

Interfund transfers consisted of the following for the year ended June 30, 2006:

	Transfers out		
	General Fund	Capital Projects	Subtotal Transfers In
<u>Transfers in</u>			
Local Street	\$ 250,000	\$ -	\$ 250,000
Parking Deck	-	826,080	826,080
Nonmajor governmental funds	<u>323,487</u>	<u>-</u>	<u>323,487</u>
Subtotal transfers out	<u>\$ 573,487</u>	<u>\$ 826,080</u>	<u>\$ 1,399,567</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	Transfers out			
	Water and Sewer	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Subtotal Transfers In
<u>Transfers in</u>				
General Fund	\$ -	\$ 78,261	\$ 10,000	\$ 88,261
Major Street	-	358,212	-	358,212
Local Street	-	721,100	-	721,100
Parking Deck	13,268	-	-	13,268
Water and Sewer	-	339,100	221,000	560,200
Nonmajor governmental funds	44,100	98,537	-	142,637
Nonmajor enterprise funds	148,631	-	-	148,631
Internal service funds	<u>45,380</u>	<u>46,025</u>	<u>-</u>	<u>91,405</u>
Subtotal transfers out	<u>\$ 251,379</u>	<u>\$ 1,641,235</u>	<u>\$ 231,100</u>	<u>\$ 2,123,714</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2006:

<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
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Primary Government

Governmental activities

2005 General Obligation Limited Tax Bonds maturing serially to 2016 in annual installments beginning November 2006 ranging from \$50,000 to \$175,000 bearing interest ranging from 2.30% to 3.75%.

\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 50,000
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CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
2005 Downtown Development Bonds. Reclassified to Business-type activities in 2006.	\$ 6,000,000	\$ -	\$(6,000,000)	\$ -	\$ -	\$ -
2000 Michigan Transportation Authority Bonds maturing serially to 2015 in annual installments ranging from \$5,000 to \$160,000 and bearing interest ranging from 5.00% to 5.30%.	730,000	-	-	(5,000)	725,000	5,000
1997 Building Authority Bonds maturing serially to 2015 in annual installments ranging from \$40,000 to \$70,000 and bearing interest ranging from 5.10% to 5.50%.	585,000	-	-	(40,000)	545,000	40,000
1997 Michigan Transportation Authority Bonds maturing serially to 2012 in annual installments ranging from \$70,000 to \$95,000 and bearing interest ranging from 5.10% to 5.30%.	540,000	-	-	(45,000)	495,000	70,000
1994 Recreational Building Authority note maturing serially to 2019 in annual installments of \$35,000 including interest at 5.38%.	332,857	-	-	(16,809)	316,048	17,713
1991 Michigan Transportation Fund Bonds maturing serially to 2006 in annual installments of \$75,000 and bearing interest at 6.50%.	150,000	-	-	(75,000)	75,000	75,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
2004 Building Authority Note maturing in 2009 with monthly installments of \$230 including interest at 3.494%. \$	10,361	\$ -	\$ -	\$ (2,436)	\$ 7,925	\$ 2,522
2004 CDBG non-interest bearing loan, due in equal annual installments of \$39,500 for 10 years beginning July 1, 2005.	395,000	-	-	(29,625)	365,375	39,500
1994 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2007 in annual installments of \$245,000 and bearing interest at 5.90%.	460,000	-	-	(215,000)	245,000	245,000
1991 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2006 in annual installments of \$50,000 and bearing interest ranging from 5.00% to 6.90%.	100,000	-	-	(50,000)	50,000	50,000
1989 non-interest bearing Land Contract matured during 2006.	15,600	-	-	(15,600)	-	-
1994 Tax Increment Financing Authority Bonds maturing serially to 2007 in annual installments of \$85,000 and bearing interest at 6.10%.	160,000	-	-	(75,000)	85,000	85,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
2006 Installment Purchase Note, maturity in 2011 with monthly installments of \$953 including interest at 4.49%	\$ -	\$ 51,121	\$ -	\$ (755)	\$ 50,366	\$ 9,336
Subtotal	10,978,818	51,121	(6,000,000)	(570,225)	4,459,714	689,071
Accrued compensated absences	271,741	-	-	(10,980)	260,761	11,700
Total governmental activities	<u>\$11,250,559</u>	<u>\$ 51,121</u>	<u>\$(6,000,000)</u>	<u>\$ (581,205)</u>	<u>\$ 4,720,475</u>	<u>\$ 700,771</u>
Business-type activities						
1998 State Drinking Water Revolving Fund Loan maturing serially to 2020 in annual installments ranging from \$190,000 to \$260,000 and bearing interest at 2.50%	\$ 3,305,000	\$ -	\$ -	\$ (185,000)	\$ 3,120,000	\$ 190,000
2002 General Obligation Limited Tax Bonds maturing serially to 2023 in annual installments ranging from \$50,000 to \$325,000 and bearing interest ranging from 3.00% to 5.25%.	3,395,000	-	-	(45,000)	3,350,000	50,000
2002 General Obligation Unlimited Tax Refunding Bonds maturing serially to 2010 in annual installments ranging from \$600,000 to \$705,000 and bearing interest ranging from 4.10% to 4.50%	3,285,000	-	-	(50,000)	3,235,000	600,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
1998 State Revolving Fund Combined Sewer Overflow (CSO) Loan maturing serially to 2020 in annual installments ranging from \$175,000 to \$230,000 and bearing interest at 2.25%.	\$ 3,012,230	\$ -	\$ -	\$ (170,000)	\$ 2,842,230	\$ 175,000
1995 State Revolving Fund CSO Loan maturing serially to 2017 in annual installments ranging from \$190,000 to \$230,000 and bearing interest at 2.25%.	2,485,000	-	-	(180,000)	2,305,000	190,000
1998 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$90,000 to \$450,000 and bearing interest ranging from 3.85% to 4.25%.	2,450,000	-	-	(100,000)	2,350,000	90,000
2005 Downtown Development Bonds maturing serially to 2027 in annual installments beginning November 2006 ranging from \$80,000 to \$565,000 bearing interest ranging from 4.25% to 4.40%.	-	-	6,000,000	-	6,000,000	80,000
2001 Water Supply and Sewer System Limited Tax General Obligation Bonds maturing serially to 2022 in annual installments ranging from \$65,000 to \$260,000 and bearing interest ranging from 4.00% to 5.00%.	2,475,000	-	-	(65,000)	2,410,000	65,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
1995 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2015 in annual installments ranging from \$160,000 to \$280,000 and bearing interest at 5.00%.	\$ 2,355,000	\$ -	\$ -	\$ (165,000)	\$ 2,190,000	\$ 160,000
2002 Clean Water Program State Revolving Fund CSO General Obligation Limited Tax Sewage Disposal System Bonds maturing serially to 2023 in annual installments ranging from \$140,000 to \$210,000 and bearing interest at 2.50%.	2,980,273	269,607	-	(135,000)	3,114,880	140,000
2003 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2024 in annual installments ranging from \$130,000 to \$195,000 and bearing interest at 2.50%.	2,753,189	249,575	-	(125,000)	2,877,764	130,000
2001 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2023 in annual installments ranging from \$75,000 to \$110,000 and bearing interest at 2.50%.	1,650,607	-	-	(75,000)	1,575,607	75,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
1997 Limited Tax General Obligation Bonds maturing serially to 2017 in annual installments ranging from \$35,000 to \$65,000 and bearing interest ranging from 4.80% to 5.30%.	\$ 610,000	\$ -	\$ -	\$ (35,000)	\$ 575,000	\$ 35,000
1997 State Water Pollution Control Revolving Fund Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$30,000 to \$35,000 and bearing interest at 2.25%.	465,000	-	-	(30,000)	435,000	30,000
1990 General Obligation Unlimited Tax Water Intake Facilities Capital Appreciation Bonds matured during 2006.	216,159	-	-	(216,159)	-	-
2005 General Obligation Limited Tax Bonds (Series B) maturing serially to 2025 in installments ranging from \$25,000 to \$60,000 and bearing interest from 3.85% to 4.625%.	<u>-</u>	<u>790,000</u>	<u>-</u>	<u>-</u>	<u>790,000</u>	<u>25,000</u>
Subtotal	31,437,458	1,309,182	6,000,000	(1,576,159)	37,170,481	2,035,000
Accrued compensated absences	<u>54,323</u>	<u>3,613</u>	<u>-</u>	<u>-</u>	<u>57,936</u>	<u>-</u>
Total business-type activities	<u>\$31,491,781</u>	<u>\$ 1,312,795</u>	<u>\$ 6,000,000</u>	<u>\$(1,576,159)</u>	<u>\$37,228,417</u>	<u>\$ 2,035,000</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
<u>Component Units</u>						
Economic Development Corporation						
Accrued compensated absences	\$ <u>6,385</u>	\$ <u>128</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,513</u>	\$ <u>-</u>
Bayliss Public Library						
Accrued compensated absences	\$ <u>19,641</u>	\$ <u>539</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>20,180</u>	\$ <u>-</u>

Accrued compensated absences are generally liquidated by the General Fund for governmental activities, the Water and Sewer Fund for the business-type activities and the Economic Development Corporation and Bayliss Public Library for the component units.

Annual debt service requirements to maturity for the above obligations except for accrued compensated absences are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 689,071	\$ 160,542	\$ 2,035,000	\$ 1,264,883
2008	330,528	148,135	2,125,000	1,194,428
2009	362,199	135,868	2,205,000	1,120,953
2010	395,927	122,286	2,320,000	1,042,555
2011	406,685	107,444	2,415,000	959,538
2012-2016	2,186,028	270,652	10,065,000	3,772,811
2017-2021	89,276	15,724	9,997,230	2,009,668
2022-2026	-	-	5,443,251	551,036
2027	-	-	565,000	12,428
Total	\$ <u>4,459,714</u>	\$ <u>960,651</u>	\$ <u>37,170,481</u>	\$ <u>11,928,300</u>

Total interest expense for the City for the year ending June 30, 2006 was \$1,814,910.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Primary Government

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0.00% to 6.71% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

The required contribution of \$135,738 was equal to the annual pension cost and actual contribution, and was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's overfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the last actuarial valuation, was 30 years.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 119,400	100%	\$ -
6/30/05	143,911	100%	-
6/30/06	135,738	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Over- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 17,481,855	\$15,814,445	\$(1,667,410)	111%	\$3,468,584	0%
12/31/02	17,503,766	17,447,662	(56,104)	100%	3,670,545	0%
12/31/03	18,223,939	18,105,810	(118,129)	101%	3,743,216	0%
12/31/04	18,890,155	19,779,167	889,012	96%	3,545,698	25%
12/31/05	19,428,237	19,949,324	521,087	97%	3,577,745	15%

Fire and Police Department Pension and Retirement Plan (Act 345)

Plan Description

The City of Sault Ste. Marie contributes to the City of Sault Ste. Marie Firemen and Policemen Retirement System (the "Retirement System"), which is based on Act No. 345 of the Public Acts of 1937, as amended. The Retirement System is a single employer, contributory defined benefit pension plan (the "Plan"). The City of Sault Ste. Marie is the Administrator of the Plan. Administrative costs of the Plan are financed through investment earnings. The Plan is included as a pension trust fund in the City's financial statements and a stand alone financial report of the Plan has not been issued.

Substantially, all full-time Fire and Police Department employees are eligible to participate in the Retirement System. Benefits vest after ten years of service. Fire Department employees who retire at age 50 with 25 or more years of service or age 60 regardless of years of service are entitled to retirement benefits equal to 2.8% of three-year average final compensation times the first 25 years of credited service plus 1% of average final compensation for each year in excess of 25 years of service. Police patrol employees who retire with 20 or more years of service or age 60, regardless of years of service, are entitled to retirement benefits equal to 2.8% of three-year average final compensation times first 25 years of service with a maximum of 70% of average final compensation. Police sergeants

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

hired after July 1, 2002 who retire with 25 or more years service regardless of age or age 60 regardless of service are entitled to a straight life pension equal to 2.8% of three-year average final compensation times year of service with a maximum of 75% average final compensation (Plan B). Police sergeants hired prior to July 1, 2002 are entitled to Plan B as described above or retirees with 20 or more years of service regardless of age or age 60 regardless service are entitled to straight life pension equal to 2.6% of three-year average compensation times first 25 years of service plus 1% of average final compensation times years of service in excess of 25 years with a maximum of 80% average final compensation.

A post retirement benefit increase of 2% and 1% respectively, times the number of full years retired for persons retired prior and subsequent to July 1, 1976 respectively, was made effective July 1, 1988. The Plan does not include provisions for other early retirement. Mandatory retirement occurs at age 65.

The Retirement System also provides death and disability benefits, which is, computed in the same manner as the retirement benefit at age 55, reduced to 1.5% of average final compensation for non-duty disability. The duty disability benefit is 50% of average final compensation.

If an employee terminates his or her employment with the Police or Fire Departments and is not eligible for any other benefits under the Plan, the employee is entitled to receive a refund of his or her accumulated contribution plus interest.

Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. The City's contributions to the Plan are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost, which approximates fair value; securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; investments that do not have established fair values are reported at estimated fair value; and cash deposits are reported at carrying amounts which reasonably estimates fair value.

No single investment comprised more than five percent of the total investments for the Police and Fire Retirement at June 30, 2006.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Funding Policy

Covered employees contribute 5.6% (Firefighters and Police Sergeants) to 7.5% (Police Patrol) of their annual compensation. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by statute.

Annual Pension Cost

The Plan's annual pension cost of \$761,823 was equal to the Plan's required and actual contributions for the current year.

The annual required contribution for the current year was determined as part of a June 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 8.8% to 5.2% per year. Both (a) and (b) included an inflation component of 5.00%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005 was 30 years.

Bayliss Public Library -Component Unit

Plan Description

Bayliss Public Library's (a component unit of the City of Sault Ste. Marie, Michigan), (the "Library") defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ -	0%	\$ -
6/30/05	-	0%	-
6/30/06	-	0%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Over- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 1,022,077	\$ 769,629	\$ 252,448	133%	\$ 173,026	0%
12/31/02	1,017,843	812,901	204,942	125%	150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%
12/31/04	1,026,782	522,890	503,892	196%	184,224	0%
12/31/05	1,067,818	566,224	501,594	189%	198,525	0%

B. Commitments and Contingencies

The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2006.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City leases, under operating lease arrangements, administrative office space and various parcels of land for use as parking lots. The City is also responsible for maintenance and operating expense relating to the property. In addition, the City has entered into an agreement with the Sault Ste. Marie Country Club (the "Club") whereby the Club leases the golf course from the City for an annual lease fee which is equivalent to the City's required \$35,000 payment to the Building Authority to retire its \$475,000 note payable. The balance of this note payable was \$316,048 at June 30, 2006.

The City leases utility cart equipment to the Club whereby the Club leases the equipment from the City for an annual lease fee, which is equivalent to the City's required \$2,758 payment to the Building Authority to retire its \$12,730 note payable. The balance of this note payable was \$7,925 at June 30, 2006.

The City leases lawn mowing equipment to the Club whereby the Club leases the equipment from the City for an annual lease fee, which is equivalent to the City's required \$11,436 payment to retire its \$51,121 note payable. The balance of this note payable was \$50,366 at June 30, 2006. No lease payments were received from the Club during the year ended June 30, 2006. They are expected to be received during the year ended June 30, 2007.

In accordance with an agreement, Chippewa County annually purchases real property taxes and delinquent special assessments (included on the tax bills), which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions is not currently determinable.

The City's public works and fire personnel union contract expired June 30, 2004. The City is still in negotiations with these unions and the effect these final contracts will have on the June 30, 2006 financial statements cannot be estimated.

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's current liability and property insurance is through Municipal Underwriters of Michigan representing Gulf Insurance Group.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

D. Prior Period Adjustments

Fund Financial Statements

	<u>Seal Trust Operations</u>	<u>Osborn Trust Operations</u>	<u>Cemetery Perpetual Care</u>
Fund balances, beginning of year, as previously reported	\$ 334,060	\$ 33,108	\$ 256,441
Error in recording investments at fair value	<u>1,100</u>	<u>1,100</u>	<u>26,975</u>
Fund balances, beginning of year, as restated	<u>\$ 335,160</u>	<u>\$ 34,208</u>	<u>\$ 283,416</u>

Government-wide Financial Statements

	<u>Governmental Activities</u>
Net assets, beginning of year, as previously reported	\$ 51,887,983
Error in recording investments at fair value	26,975
Error in recording payable	<u>2,200</u>
Net assets, beginning of year, as restated	<u>\$ 51,917,158</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAULT STE. MARIE

REQUIRED SUPPLEMENTARY INFORMATION

City of Sault Ste. Marie Statement No. 25 Required Supplementary Information Firemen and Policemen Retirement System

Six-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/01	\$ 466,518	100%	\$ -
6/30/02	501,393	100%	-
6/30/03	531,046	100%	-
6/30/04	615,959	100%	-
6/30/05	696,387	100%	-
6/30/06	761,823	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Under- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/00	\$ 12,106,796	\$ 15,986,238	\$3,879,442	76%	\$2,087,163	186%
6/30/01	12,323,362	16,519,263	4,195,901	75%	2,215,948	189%
6/30/02	12,198,649	17,439,131	5,240,482	70%	2,157,743	243%
6/30/03	11,819,254	19,043,533	7,224,279	62%	2,279,757	317%
6/30/04	11,600,524	19,529,555	7,929,031	59%	2,267,876	350%
6/30/05	11,590,091	20,238,595	8,648,504	57%	2,288,704	378%

SUPPLEMENTARY INFORMATION

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
ASSETS					
Cash and cash equivalents	\$ 495,248	\$ -	\$ 3,919,834	\$ 214,354	\$ 4,629,436
Investments	218,139	-	1,173,305	85,077	1,476,521
Restricted investments	-	-	-	2,392,489	2,392,489
Accounts receivable	-	-	23,856	-	23,856
Due from other governmental units	12,435	-	-	-	12,435
Special assessment receivable	-	-	778,888	-	778,888
Total assets	\$ 725,822	\$ -	\$ 5,895,883	\$ 2,691,920	\$ 9,313,625
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 12,543	\$ -	\$ 88,049	\$ -	\$ 100,592
Accrued expenses	30,432	-	-	-	30,432
Deferred revenue	-	-	778,888	-	778,888
Total liabilities	42,975	-	866,937	-	909,912
Fund balances					
Reserved	-	-	-	2,691,920	2,691,920
Unreserved					
Designated	219,888	-	5,028,946	-	5,248,834
Undesignated	462,959	-	-	-	462,959
Total fund balances	682,847	-	5,028,946	2,691,920	8,403,713
Total liabilities and fund balances	\$ 725,822	\$ -	\$ 5,895,883	\$ 2,691,920	\$ 9,313,625

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
Revenues					
Taxes	\$ -	\$ -	\$ 235,073	\$ -	\$ 235,073
Special assessments	-	-	204,798	-	204,798
State sources	-	-	733,451	-	733,451
Local sources	300,000	388,876	11,400	-	700,276
Charges for services	33,647	-	-	6,518	40,165
Rental	-	-	91,818	-	91,818
Interest	15,669	-	100,038	112,296	228,003
Miscellaneous	35,856	-	-	-	35,856
Total revenues	385,172	388,876	1,376,578	118,814	2,269,440
Expenditures					
Current					
Culture and recreation	82,098	-	-	-	82,098
Public works	-	-	164,429	-	164,429
Other	15,531	-	-	-	15,531
Capital outlay	-	-	2,021,063	2,200	2,023,263
Debt service					
Principal retirement	-	355,600	-	-	355,600
Interest and fiscal charges	-	33,276	-	-	33,276
Total expenditures	97,629	388,876	2,185,492	2,200	2,674,197
Revenues over (under) expenditures	287,543	-	(808,914)	116,614	(404,757)
Other financing sources (uses)					
Net depreciation in fair value of investments	-	-	-	(122,200)	(122,200)
Bond proceeds	-	-	1,309,182	-	1,309,182
Bond discount	-	-	(5,417)	-	(5,417)
Transfers in	90,537	-	375,587	-	466,124
Transfers out	(300,000)	-	(1,243,643)	(97,592)	(1,641,235)
Total other financing sources (uses)	(209,463)	-	435,709	(219,792)	6,454
Net change in fund balances	78,080	-	(373,205)	(103,178)	(398,303)
Fund balances, beginning of year, as previously reported	602,567	-	5,402,151	2,768,123	8,772,841
Prior period adjustment	2,200	-	-	26,975	29,175
Fund balances, beginning of year, as restated	604,767	-	5,402,151	2,795,098	8,802,016
Fund balances, end of year	\$ 682,847	\$ -	\$ 5,028,946	\$ 2,691,920	\$ 8,403,713

CITY OF SAULT STE MARIE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2006

ASSETS	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
Cash and cash equivalents	\$ 255,554	\$ 34,342	\$ -	\$ 35,594
Investments	121,279	16,298	-	-
Due from other governmental units	-	-	-	-
Total assets	\$ 376,833	\$ 50,640	\$ -	\$ 35,594
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 108	\$ -	\$ -
Accrued expenses	-	-	-	-
Total liabilities	-	108	-	-
Fund balances				
Unreserved				
Designated	-	-	-	-
Undesignated	376,833	50,532	-	35,594
Total fund balances	376,833	50,532	-	35,594
Total liabilities and fund balances	\$ 376,833	\$ 50,640	\$ -	\$ 35,594

Industrial Park Site Assessment	1992 Housing Development	Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ 169,758	\$ 495,248
-	-	80,562	218,139
12,435	-	-	12,435
\$ 12,435	\$ -	\$ 250,320	\$ 725,822

\$ 12,435	\$ -	\$ -	\$ 12,543
-	-	30,432	30,432
12,435	-	30,432	42,975

-	-	219,888	219,888
-	-	-	462,959
-	-	219,888	682,847
\$ 12,435	\$ -	\$ 250,320	\$ 725,822

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
Revenues				
Local sources	\$ -	\$ -	\$ 300,000	\$ -
Charges for services	33,647	-	-	-
Interest	13,773	1,638	-	258
Miscellaneous	-	-	-	-
Total revenues	47,420	1,638	300,000	258
Expenditures				
Culture and recreation	71,265	10,333	-	500
Other expenditures	-	-	-	-
Total expenditures	71,265	10,333	-	500
Revenues over (under) expenditures	(23,845)	(8,695)	300,000	(242)
Other financing sources (uses)				
Transfers in	65,518	25,019	-	-
Transfers out	-	-	(300,000)	-
Total other financing sources (uses)	65,518	25,019	(300,000)	-
Net change in fund balances	41,673	16,324	-	(242)
Fund balances, beginning of year, as previously reported	334,060	33,108	-	35,836
Prior period adjustment	1,100	1,100	-	-
Fund balances, beginning of year, as restated	335,160	34,208	-	35,836
Fund balances, end of year	\$ 376,833	\$ 50,532	\$ -	\$ 35,594

Industrial Park Site Assessment	1992 Housing Development	Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ 300,000
-	-	-	33,647
-	-	-	15,669
-	-	35,856	35,856
-	-	35,856	385,172
-	-	-	82,098
-	5,351	10,180	15,531
-	5,351	10,180	97,629
-	(5,351)	25,676	287,543
-	-	-	90,537
-	-	-	(300,000)
-	-	-	(209,463)
-	(5,351)	25,676	78,080
-	5,351	194,212	602,567
-	-	-	2,200
-	5,351	194,212	604,767
\$ -	\$ -	\$ 219,888	\$ 682,847

CITY OF SAULT STE. MARIE

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECT FUNDS

JUNE 30, 2006

ASSETS	Lakeshore Subdivision	Ashmun Street Project	CSO	CSO Phase D	CSO Phase B
Cash and cash equivalents	\$ 3,866	\$ 39,723	\$ 641,342	\$ 645,850	\$ 328,214
Investments	1,834	18,851	304,365	-	1,879
Accounts receivable	-	-	-	-	-
Special assessment receivable	-	-	33,164	465,428	166,373
Total assets	\$ 5,700	\$ 58,574	\$ 978,871	\$ 1,111,278	\$ 496,466
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 74,393	\$ -
Deferred revenue	-	-	33,164	465,428	166,373
Total liabilities	-	-	33,164	539,821	166,373
Fund balances					
Unreserved, designated	5,700	58,574	945,707	571,457	330,093
Total liabilities and fund balances	\$ 5,700	\$ 58,574	\$ 978,871	\$ 1,111,278	\$ 496,466

Public Works Building	2001 DWRP/SRF Project	CSO Phase C	City County Building	Capital Outlay	Total Nonmajor Capital Project Funds
\$ 1,127,948	\$ 443,444	\$ 17,111	\$ 40,594	\$ 631,742	\$ 3,919,834
535,296	92,014	8,120	19,265	191,681	1,173,305
-	180	-	23,676	-	23,856
-	113,923	-	-	-	778,888
\$ 1,663,244	\$ 649,561	\$ 25,231	\$ 83,535	\$ 823,423	\$ 5,895,883
\$ -	\$ 1,121	\$ -	\$ 12,535	\$ -	\$ 88,049
-	113,923	-	-	-	778,888
-	115,044	-	12,535	-	866,937
1,663,244	534,517	25,231	71,000	823,423	5,028,946
\$ 1,663,244	\$ 649,561	\$ 25,231	\$ 83,535	\$ 823,423	\$ 5,895,883

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Lakeshore Subdivision	Ashmun Street Project	CSO	CSO Phase D	CSO Phase B
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	24,997	111,556	52,523
State sources	-	-	-	-	-
Local sources	-	-	-	-	-
Rental	-	-	-	-	-
Interest	-	2,191	34,849	31,506	17,440
Total revenues	-	2,191	59,846	143,062	69,963
Expenditures					
Public works	-	-	-	-	-
Capital outlay	-	-	-	937,329	7,961
Total expenditures	-	-	-	937,329	7,961
Revenues over (under) expenditures	-	2,191	59,846	(794,267)	62,002
Other financing sources (uses)					
Bond proceeds	-	-	-	1,309,182	-
Bond discount	-	-	-	(5,417)	-
Transfers in	-	-	-	-	-
Transfers out	-	-	(58,400)	(540,700)	(83,100)
Total other financing sources (uses)	-	-	(58,400)	763,065	(83,100)
Net change in fund balances	-	2,191	1,446	(31,202)	(21,098)
Fund balances, beginning of year	5,700	56,383	944,261	602,659	351,191
Fund balances, end of year	\$ 5,700	\$ 58,574	\$ 945,707	\$ 571,457	\$ 330,093

Public Works Building	2001 DWRF/SRF Project	CSO Phase C	City County Building	Capital Outlay	Total Nonmajor Capital Project Funds
\$ -	\$ -	\$ -	\$ -	\$ 235,073	\$ 235,073
-	15,722	-	-	-	204,798
-	-	-	-	733,451	733,451
-	-	-	11,400	-	11,400
-	-	-	91,818	-	91,818
-	11,603	231	-	2,218	100,038
-	27,325	231	103,218	970,742	1,376,578
-	-	-	164,429	-	164,429
(1)	7,871	-	-	1,067,903	2,021,063
(1)	7,871	-	164,429	1,067,903	2,185,492
1	19,454	231	(61,211)	(97,161)	(808,914)
-	-	-	-	-	1,309,182
-	-	-	-	-	(5,417)
250,000	-	25,000	61,212	39,375	375,587
(46,025)	(24,000)	-	-	(491,418)	(1,243,643)
203,975	(24,000)	25,000	61,212	(452,043)	435,709
203,976	(4,546)	25,231	1	(549,204)	(373,205)
1,459,268	539,063	-	70,999	1,372,627	5,402,151
\$ 1,663,244	\$ 534,517	\$ 25,231	\$ 71,000	\$ 823,423	\$ 5,028,946

CITY OF SAULT STE. MARIE

**COMBINING BALANCE SHEET
PERMANENT FUNDS**

JUNE 30, 2006

ASSETS	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
Cash and cash equivalents	\$ 24,631	\$ 35,085	\$ 154,638	\$ 214,354
Investments	11,690	-	73,387	85,077
Restricted investments	1,413,073	900,000	79,416	2,392,489
Total assets (equal to reserved fund balances)	\$ 1,449,394	\$ 935,085	\$ 307,441	\$ 2,691,920

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - PERMANENT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
Revenues				
Charges for services	\$ -	\$ -	\$ 6,518	\$ 6,518
Interest	74,151	25,929	12,216	112,296
Total revenues	74,151	25,929	18,734	118,814
Expenditures				
Capital outlay	1,100	1,100	-	2,200
Revenues over expenditures	73,051	24,829	18,734	116,614
Other financing sources (uses)				
Net appreciation (depreciation) in fair value of investments	(134,546)	-	12,346	(122,200)
Transfers out	(65,518)	(25,019)	(7,055)	(97,592)
Total other financing sources (uses)	(200,064)	(25,019)	5,291	(219,792)
Net change in fund balances	(127,013)	(190)	24,025	(103,178)
Fund balances, beginning of year, as previously reported	1,576,407	935,275	256,441	2,768,123
Prior period adjustment	-	-	26,975	26,975
Fund balances, beginning of year, as restated	1,576,407	935,275	283,416	2,795,098
Fund balances, end of year	\$ 1,449,394	\$ 935,085	\$ 307,441	\$ 2,691,920

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2006

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 154,906	\$ (833)	\$ 841,254	\$ 198,645	\$ 1,193,972
Investments	73,515	-	-	-	73,515
Accounts receivable	-	834	-	-	834
Total current assets	228,421	1	841,254	198,645	1,268,321
Noncurrent assets					
Capital assets not being depreciated	156,472	-	-	-	156,472
Capital assets, net of depreciation	11,199	-	-	-	11,199
Total noncurrent assets	167,671	-	-	-	167,671
Total assets	396,092	1	841,254	198,645	1,435,992
Liabilities					
Current liabilities					
Accounts payable	6,435	-	-	-	6,435
Noncurrent liabilities					
Compensated absences	3,822	-	-	-	3,822
Total liabilities	10,257	-	-	-	10,257
Net assets					
Investment in capital assets	167,671	-	-	-	167,671
Unrestricted	218,164	1	841,254	198,645	1,258,064
Total net assets	\$ 385,835	\$ 1	\$ 841,254	\$ 198,645	\$ 1,425,735

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Operating revenues					
Charges for services	\$ 189,990	\$ -	\$ -	\$ -	\$ 189,990
Operating expenses					
Parking lot expenses	200,941	-	-	-	200,941
Depreciation	3,659	-	-	-	3,659
Total operating expenses	204,600	-	-	-	204,600
Operating loss	(14,610)	-	-	-	(14,610)
Nonoperating revenues					
Interest revenue	3,913	-	6,531	1,505	11,949
Income (loss) before transfers	(10,697)	-	6,531	1,505	(2,661)
Transfers					
Transfers in	-	-	92,000	56,631	148,631
Transfers out	(10,000)	-	(186,100)	(35,000)	(231,100)
Total transfers	(10,000)	-	(94,100)	21,631	(82,469)
Change in net assets	(20,697)	-	(87,569)	23,136	(85,130)
Net assets, beginning of year	406,532	1	928,823	175,509	1,510,865
Net assets, end of year	\$ 385,835	\$ 1	\$ 841,254	\$ 198,645	\$ 1,425,735

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Cash flows from operating activities					
Cash collected from customers	\$ 189,990	\$ 1,640	\$ -	\$ -	\$ 191,630
Cash paid for employee wages and benefits	(117,286)	-	-	-	(117,286)
Cash paid for other operating and administrative expenses	(77,829)	-	-	-	(77,829)
Net cash provided by (used in) operating activities	(5,125)	1,640	-	-	(3,485)
Cash flows from noncapital financing activities					
Transfers in	-	-	92,000	56,631	148,631
Transfers out	(10,000)	-	(186,100)	(35,000)	(231,100)
Net cash provided by (used in) noncapital financing activities	(10,000)	-	(94,100)	21,631	(82,469)
Cash flows from investing activities					
Purchase of investments	(73,515)	-	-	-	(73,515)
Interest revenue	3,913	-	6,531	1,505	11,949
Net cash provided by (used in) investing activities	(69,602)	-	6,531	1,505	(61,566)
Net increase (decrease) in cash and cash equivalents	(84,727)	1,640	(87,569)	23,136	(147,520)
Cash and cash equivalents, beginning of year	239,633	(2,473)	928,823	175,509	1,341,492
Cash and cash equivalents, end of year	\$ 154,906	\$ (833)	\$ 841,254	\$ 198,645	\$ 1,193,972

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Parking</u>	<u>Transportation Garage Operations</u>	<u>Sewer Plant Equipment Replacement</u>	<u>Water Equipment Replacement</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities					
Operating loss	\$ (14,610)	\$ -	\$ -	\$ -	\$ (14,610)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities					
Depreciation	3,659	-	-	-	3,659
Changes in operating assets and liabilities which provided (used) cash					
Accounts receivable	-	1,640	-	-	1,640
Accounts payable	6,435	-	-	-	6,435
Compensated absences	(609)	-	-	-	(609)
Net cash provided by (used in) operating activities	<u>\$ (5,125)</u>	<u>\$ 1,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,485)</u>

Concluded

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

JUNE 30, 2006

	Data Processing	Stock and Equipment	Total Internal Service Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 100,462	\$ 833,700	\$ 934,162
Investments	47,677	395,652	443,329
Accounts receivable	-	4,677	4,677
Inventory	-	106,621	106,621
Total current assets	148,139	1,340,650	1,488,789
Noncurrent assets			
Capital assets not being depreciated	112,294	-	112,294
Capital assets, net of depreciation	140,009	881,122	1,021,131
Total noncurrent assets	252,303	881,122	1,133,425
Total assets	400,442	2,221,772	2,622,214
Liabilities			
Current liabilities			
Accounts payable	2,287	45,833	48,120
Noncurrent liabilities			
Compensated absences	-	10,546	10,546
Total liabilities	2,287	56,379	58,666
Net assets			
Investment in capital assets	252,303	881,122	1,133,425
Unrestricted	145,852	1,284,271	1,430,123
Total net assets	\$ 398,155	\$ 2,165,393	\$ 2,563,548

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - INTERNAL SERVICE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

	Data Processing	Stock and Equipment	Total Internal Service Funds
Operating revenues			
Charges for services	<u>\$ 162,645</u>	<u>\$ 877,607</u>	<u>\$ 1,040,252</u>
Operating expenses			
Operation of equipment	91,403	789,202	880,605
Depreciation	<u>40,367</u>	<u>215,127</u>	<u>255,494</u>
Total operating expenses	<u>131,770</u>	<u>1,004,329</u>	<u>1,136,099</u>
Operating income (loss)	<u>30,875</u>	<u>(126,722)</u>	<u>(95,847)</u>
Nonoperating revenues			
Interest	-	35,763	35,763
Miscellaneous	<u>-</u>	<u>179,484</u>	<u>179,484</u>
Total nonoperating revenues	<u>-</u>	<u>215,247</u>	<u>215,247</u>
Income before transfers	<u>30,875</u>	<u>88,525</u>	<u>119,400</u>
Transfers			
Transfers in	<u>-</u>	<u>91,405</u>	<u>91,405</u>
Change in net assets	<u>30,875</u>	<u>179,930</u>	<u>210,805</u>
Net assets, beginning of year	<u>367,280</u>	<u>1,985,463</u>	<u>2,352,743</u>
Net assets, end of year	<u><u>\$ 398,155</u></u>	<u><u>\$ 2,165,393</u></u>	<u><u>\$ 2,563,548</u></u>

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Data Processing	Stock and Equipment	Total Internal Service Funds
Cash flows from operating activities			
Cash collected from other funds	\$ 162,645	\$ 875,883	\$ 1,038,528
Cash paid for employee wages and benefits	(56,969)	(93,682)	(150,651)
Cash paid for other operating and administrative expenses	(32,150)	(692,707)	(724,857)
Net cash provided by operating activities	73,526	89,494	163,020
Cash flows from noncapital financing activities			
Transfers in	-	91,405	91,405
Miscellaneous revenue	-	179,484	179,484
Net cash provided by noncapital financing activities	-	270,889	270,889
Cash flows from capital and related financing activities			
Purchase of property, plant and equipment	(51,081)	(349,012)	(400,093)
Cash flows from investing activities			
Purchase of investments	(47,677)	(395,652)	(443,329)
Interest revenue	-	35,763	35,763
Net cash used in investing activities	(47,677)	(359,889)	(407,566)
Net decrease in cash and cash equivalents	(25,232)	(348,518)	(373,750)
Cash and cash equivalents, beginning of year	125,694	1,182,218	1,307,912
Cash and cash equivalents, end of year	\$ 100,462	\$ 833,700	\$ 934,162

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Data Processing</u>	<u>Stock and Equipment</u>	<u>Total Internal Service Funds</u>
Cash flows from operating activities			
Operating income (loss)	\$ 30,875	\$ (126,722)	\$ (95,847)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	40,367	215,127	255,494
Changes in operating assets and liabilities which provided (used) cash			
Accounts receivable	-	(1,724)	(1,724)
Inventory	-	(18,141)	(18,141)
Accounts payable	2,284	22,787	25,071
Accrued expenses	-	(1,833)	(1,833)
Net cash provided by operating activities	<u>\$ 73,526</u>	<u>\$ 89,494</u>	<u>\$ 163,020</u>

Concluded

CITY OF SAULT STE. MARIE

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Assets				
Cash and cash equivalents, unrestricted	\$ 73,098	\$ 3,171,585	\$ 3,136,053	\$ 108,630
Restricted investments	384,505	207,308	51,820	539,993
Total assets	<u>\$ 457,603</u>	<u>\$ 3,378,893</u>	<u>\$ 3,187,873</u>	<u>\$ 648,623</u>
Liabilities				
Accrued liabilities	\$ 385,717	\$ 231,723	\$ 74,413	\$ 543,027
Due to other governmental units	71,886	3,220,526	3,186,816	105,596
Total liabilities	<u>\$ 457,603</u>	<u>\$ 3,452,249</u>	<u>\$ 3,261,229</u>	<u>\$ 648,623</u>

CITY OF SAULT STE MARIE
COMBINING BALANCE SHEET
GOVERNMENTAL COMPONENT UNITS

JUNE 30, 2006

	Downtown Development Authority	Economic Development Corporation	TIFA	Library	Total Governmental Component Units
Assets					
Cash and cash equivalents	\$ 1,006,741	\$ 147,290	\$ 92,302	\$ 459,633	\$ 1,705,966
Investments	474,806	320,000	-	113,529	908,335
Accounts receivable	-	2,740	-	25,208	27,948
Special assessment receivable	21,783	-	-	-	21,783
Prepaid expenditures	-	-	-	303	303
Restricted investments	-	-	-	159,923	159,923
Total assets	\$ 1,503,330	\$ 470,030	\$ 92,302	\$ 758,596	\$ 2,824,258
Liabilities					
Accounts payable	\$ 2,586	\$ -	\$ -	\$ 48,194	\$ 50,780
Accrued expenses	1,096	7,435	-	-	8,531
Deferred revenue	21,783	-	-	-	21,783
Total liabilities	25,465	7,435	-	48,194	81,094
Fund balances					
Restricted	-	-	-	159,923	159,923
Unreserved - undesignated	1,477,865	462,595	92,302	550,479	2,583,241
Total fund balances	1,477,865	462,595	92,302	710,402	2,743,164
Total liabilities and fund balances	\$ 1,503,330	\$ 470,030	\$ 92,302	\$ 758,596	\$ 2,824,258
Reconciliation of fund balances on the balance sheet for component units to the statement of net assets					
Fund balances - component units	\$ 1,477,865	\$ 462,595	\$ 92,302	\$ 710,402	\$ 2,743,164
Amounts reported for component units in the statement of net assets are different because					
Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.					
Add - special assessments receivable	21,783	-	-	-	21,783
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					
Add - capital assets (net)	-	31,458	-	264,224	295,682
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.					
Deduct - compensated absences payable	-	(6,513)	-	(20,180)	(26,693)
Net assets of component units	\$ 1,499,648	\$ 487,540	\$ 92,302	\$ 954,446	\$ 3,033,936

CITY OF SAULT STE. MARIE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL COMPONENT UNITS

FOR THE YEAR ENDED JUNE 30, 2006

	Downtown Development Authority	Economic Development Corporation	TIFA	Library	Total Governmental Component Units
Revenues					
Local sources	\$ 287,950	\$ -	\$ -	\$ 192,000	\$ 479,950
Taxes	506,483	-	253,674	-	760,157
Special assessments	33,237	-	-	-	33,237
Charges for services	-	-	-	75,197	75,197
Interest	33,719	13,036	764	20,978	68,497
Miscellaneous	85,619	154,291	-	368,550	608,460
Total revenues	947,008	167,327	254,438	656,725	2,025,498
Expenditures					
General government	-	158,092	-	-	158,092
Culture and recreation	-	-	-	619,236	619,236
Other expenditures	725,841	-	200,426	-	926,267
Total expenditures	725,841	158,092	200,426	619,236	1,703,595
Net change in fund balance	221,167	9,235	54,012	37,489	321,903
Fund balances, beginning of year	1,256,698	453,360	38,290	672,913	2,421,261
Fund balances, end of year	\$ 1,477,865	\$ 462,595	\$ 92,302	\$ 710,402	\$ 2,743,164
Reconciliation of the statement of revenues, expenditures and change in fund balance of component units to the statement of activities					
Net change in fund balances - component units	\$ 221,167	\$ 9,235	\$ 54,012	\$ 37,489	\$ 321,903
Amounts reported for component units in the statement of activities are different because					
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.					
Add - capital outlay	-	8,445	-	59,639	68,084
Deduct - depreciation expense	-	(3,592)	-	(38,412)	(42,004)
Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.					
Deduct - special assessment receipts	(33,237)	-	-	-	(33,237)
Add - current year special assessments	28,663	-	-	-	28,663
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.					
Deduct/ add - increase/ decrease in compensated absences	-	(128)	-	(539)	(667)
Change in net assets of component units	\$ 216,593	\$ 13,960	\$ 54,012	\$ 58,177	\$ 342,742



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 25, 2006

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Sault Ste. Marie** (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the **City of Sault Ste. Marie's** basic financial statements and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated October 25, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Rehmann Lohman". The signature is written in a cursive style with a large, looped initial 'R'.

SINGLE AUDIT

CITY OF SAULT STE. MARIE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Grant Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass through Michigan Strategic Fund Agency			
Community Development Block Grant (CDBG) Program grant	14.228	MSC 202025-EDIG	<u>\$ 1,600,350</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
Bulletproof Vest Program	16.607	15X0401	2,217
Pass through Michigan Department of Community Health			
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0863	7,443
S.A.N.E. 10/1/04 to 9/30/05	16.579	70868-6-04-B	9,718
S.A.N.E. 10/1/05 to 9/30/06	16.579	70868-7-06-B	<u>26,296</u>
Total U.S. Department of Justice			<u>45,674</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Pass through Michigan Department of Environmental Quality			
Capitalization Grants for State Revolving Funds	66.458	5129-04	56,402
Capitalization Grants for Drinking Water State Revolving Funds	66.458	7010-03	<u>98,058</u>
Total U.S. Environmental Protection Agency			<u>154,460</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through Michigan Department of Transportation			
Section 5311 Operating Assistance	20.509	2002-0084 Z-10	36,354
Section 5311 Operating Assistance	20.509	2002-0084 Z-9	11,405
Section 5311 Operating Assistance	20.509	2002-0084 Z-2	2,396
Section 5309 Capital grant	20.507	2002-0084 Z-3	3,166
Pass through Michigan State Police			
State and Community Highway Safety - Challenge Award Grant	20.600	PT-06-39	5,000
State and Community Highway Safety - 2005 OHSP Highway Grant	20.600	PT-05-89	3,496
State and Community Highway Safety - 2006 OHSP Highway Grant	20.600	PT-06-67	2,731
Alcohol Traffic Safety and Drunk Driving Incentive Grant	20.601	2006-AL-06-11	3,437
Occupant Protection - Seatbelt Enforcement	20.602	PT-05-79	<u>6,853</u>
Total U.S. Department of Transportation			<u>74,838</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct Programs			
Federal Emergency Management Agency Fire Grant	No CFDA #	No Grant #	17,045
FEMA - Commercial Equipment (CEDAP)	97.096	CEDAP-03186	9,995
Pass through Michigan State Police			
Buffer Zone Protection Program	97.078	2005 GRT 50001	99,698
State Homeland Security Training Grant	97.004	2003 SHSGP II	<u>119</u>
Total U.S. Department of Homeland Security			<u>126,857</u>
Total Federal Award Expenditures			<u>\$ 2,002,179</u>

CITY OF SAULT STE. MARIE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Reconciliation from schedule of expenditures of federal awards to federal revenue reported in the financial statements

Total federal revenue per financial statement	\$ 1,847,719
Loans listed on Schedule of Expenditures of Federal Awards	<u>154,460</u>
Federal expenditures per schedule of expenditures of federal awards	<u>\$ 2,002,179</u>

Concluded

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of presentation-

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the *City of Sault Ste. Marie* , and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* . Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the government's basic financial statements.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

October 25, 2006

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of the *City of Sault Ste. Marie* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to its federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

CFDA

Name of Program

14.228

Community Development Block Grant
Capitalization Grants for State
Revolving Funds

66.458

Dollar threshold to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as a low risk auditee?	Yes
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Continued....

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs.

Concluded

ADDITIONAL INFORMATION

Continuing Disclosure Filing

City of Sault Ste. Marie
County of Chippewa, State of Michigan

Fiscal Year Ended
June 30, 2006

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Sault Ste. Marie, Michigan

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:
☒ Information relates to **all securities** issued by the issuer having the following six-digit number(s): 169682, 804413

* * *

Number of pages of attached information:

Description of Material Event Notice / Financial Information (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-Payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
7. _____ Modifications to rights of securities holders
8. _____ Bond calls
9. _____ Defeasances
10. _____ Release, substitution, or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Failure to provide annual financial information as required for the fiscal years ended June 30, 1998, 1999 and 2000
13. _____ Other material event notice (specify)
14. X Financial information*: Please check all appropriate boxes:

☐ CAFR: (a) ☐ includes ☐ does not include Annual Financial Information

(b) Audited? Yes ☐ No ☐

☒ Annual Financial Information: Audited? Yes ☒ No ☐

☒ Operating Data

Fiscal Period Covered: Fiscal Year Ended June 30, 2006

*Financial information **should not** be filed with the MSRB

* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: _____

Name: John Boger Title: Finance Director

Employer: City of Sault Ste. Marie, Michigan

Address: 325 Court Street

City, State, Zip Code: Sault Ste. Marie, Michigan 49783

Voice Telephone Number: (906) 632-5726

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street – 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market)
Fax: (212) 771-7391 (Primary Market)
E-mail: Nrmsir@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-07012
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

STATE INFORMATION REPOSITORY

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, Michigan 48226-3517
Phone: 313-963-0420
Fax: 313-963-0943
E-mail: mac@macmi.com; bev@macmi.com

Population

1960 U.S. Census.....	18,722
1980 U.S. Census	14,448
1970 U.S. Census	15,136
1990 U.S. Census.....	14,689
2000 U.S. Census.....	14,483
2000 U.S. Census.....	14,483
2000 U.S. Census.....	14,483

Source: U.S. Department of Commerce - Bureau of Census

City of Sault Ste. Marie Taxable Value Fiscal Years Ended or Ending June 30, 2003 Through 2007

Assessed Value as of December 31	Year of State Equalization And Tax Levy	City's Fiscal Year Ended or Ending June 30	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent Increase Over Prior Year
2001	2002	2003	\$230,746,348	\$3,501,750	\$234,248,098	1.82%
2002	2003	2004	235,109,881	3,382,500	238,492,381	1.81
2003	2004	2005	242,512,276	3,288,300	245,800,576	3.06
2004	2005	2006	254,452,705	3,091,700	257,544,405	4.78
2005	2006	2007	268,788,438	8,683,400	271,482,269	5.41

DNR 10.431(3)

Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2006 (2)..... \$17,782.53

(1) At the full tax rate.

(2) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

(3) Frozen value @ 2004 tax rate.

City of Sault Ste. Marie Total Taxable Value by Use and Class Fiscal Years Ended or Ending June 30, 2003 Through 2007

Use	Fiscal Year Ended or Ending June 30				
	2003	2004	2005	2006	2007
Commercial	\$ 90,103,040	\$ 90,021,978	\$ 91,676,649	\$ 96,074,536	\$ 102,785,440
Industrial	17,240,220	18,394,769	18,158,882	17,836,806	17,245,419
Residential/Agr.	120,850,338	125,721,334	131,228,445	136,868,963	143,696,610
Utility	6,054,500	4,354,530	4,736,600	6,764,100	7,754,800
Total	<u>\$ 234,258,098</u>	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>	<u>\$ 257,544,405</u>	<u>\$ 271,482,269</u>

Class	2003	2004	2005	2006	2007
Real Property	\$ 211,307,594	\$ 217,157,681	\$ 224,212,826	\$ 233,497,305	\$ 246,358,169
Personal Property	22,940,504	21,334,700	21,587,750	24,047,100	25,124,100
Total	<u>\$ 234,248,098</u>	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>	<u>\$ 257,544,405</u>	<u>\$ 271,482,269</u>

Source: City of Sault Ste. Marie

Fiscal Years Ended or Ending June 30

<u>Use</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Agriculture.....	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial	43.62	43.19	43.01	42.00	40.00
Industrial.....	5.98	6.45	6.41	6.28	7.82
Residential	47.10	47.82	48.06	49.18	49.68
Utility.....	<u>3.31</u>	<u>2.54</u>	<u>2.52</u>	<u>2.54</u>	<u>2.50</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

<u>Class</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Real Property	89.11%	89.94%	90.36%	90.81%	89.57%
Personal Property	<u>10.89</u>	<u>10.06</u>	<u>9.64</u>	<u>9.19</u>	<u>10.43</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

**City of Sault Ste. Marie
Percent of Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2002 Through 2007**

<u>Use</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Commercial	40.00%	38.47%	37.75%	37.30%	37.30%	37.86
Industrial.....	7.82	7.36	7.71	7.39	6.93	6.35
Residential/Agr.	49.68	51.59	52.71	53.39	53.14	52.93
Utility.....	<u>2.50</u>	<u>2.58</u>	<u>1.83</u>	<u>1.92</u>	<u>2.63</u>	<u>2.86</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

<u>Class</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Real Property	89.57%	90.21%	91.05%	91.22%	90.66%	90.75
Personal Property	<u>10.43</u>	<u>9.79</u>	<u>8.95</u>	<u>8.78</u>	<u>9.34</u>	<u>9.25</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2003 Through 2007**

<u>Assessed Value as of December 31</u>	<u>Year of State Equalization and Tax Levy</u>	<u>City's Fiscal Year Ended or Ending June 30</u>	<u>Ad Valorem SEV</u>	<u>SEV of Property Granted Tax Abatement Under Act 198</u>	<u>Total SEV</u>	<u>Percent Increase Over Prior Year</u>
2001	2002	2003	\$259,352,670	\$7,003,500	\$266,356,170	(0.24)%
2002	2003	2004	264,172,120	6,765,000	270,937,120	1.72
2003	2004	2005	271,003,200	6,576,600	277,579,800	2.45
2004	2005	2006	286,837,500	6,183,400	293,020,900	5.56
2005	2006	2007	303,422,900	5,366,800	308,893,100	5.42
				DNR 103,400		

Per Capita Total SEV for the Fiscal Year Ending June 30, 2006 (1) \$20,232.06

(1) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2003 Through 2007

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Commercial	\$ 100,149,000	\$ 98,794,300	\$ 99,209,600	\$ 103,532,100	\$ 110,330,300
Industrial.....	20,741,970	21,808,420	21,471,000	20,948,500	19,943,200
Residential/Agr.....	139,410,700	145,980,100	152,162,600	161,776,200	170,864,800
Utility.....	6,054,500	4,354,300	4,736,600	6,764,100	7,754,800
	<u>\$ 266,356,170</u>	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>	<u>\$ 293,020,900</u>	<u>\$ 308,893,100</u>

<u>Class</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Real Property	\$ 241,644,470	\$ 247,887,520	\$ 254,444,600	\$ 267,626,000	\$ 282,829,500
Personal Property.....	24,711,700	23,049,600	23,135,200	25,394,900	26,063,600
	<u>\$ 266,356,170</u>	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>	<u>\$ 293,020,900</u>	<u>\$ 308,893,100</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Percent of Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2003 Through 2007

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Commercial	37.60%	36.46%	35.74%	35.33%	35.72%
Industrial.....	7.79	8.05	7.74	7.15	6.45
Residential	52.34	53.88	54.82	55.21	55.32
Utility.....	2.27	1.61	1.70	2.31	2.51
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

<u>Class</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Real Property	90.72%	91.49%	91.67%	91.33%	91.56%
Personal Property.....	9.28	8.51	8.33	8.67	8.44
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Maximum Tax Rates
Fiscal Year Ending June 30, 2007

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating	20.0000	0.840695	16.8139
Refuse Collection and Disposal.....	3.0000	0.840695	2.5211
Library	1.0000	0.840695	0.8407

(1) Cumulative

Source: City of Sault Ste. Marie

Tax Abatement

The City's Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 or Act 255 (the "Acts"). The Acts were designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Acts, a local governmental unit (i.e., a city, village, or township) may establish plant rehabilitation districts, industrial development districts, and commercial redevelopment districts and offer industrial and commercial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial or commercial facilities exemption certificate granted under either of the Acts entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities or commercial facilities tax (the "IFT Tax" and "CFT Tax", respectively). For properties granted tax abatement under Act 198 or Act 255 there exists separate tax rolls referred to as the industrial facilities tax roll (the "IFT Tax Roll") and the commercial facilities tax roll (the "CFT Tax Roll"), respectively. The IFT or CFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT or CFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the state and local school district for operating purposes plus $\frac{1}{2}$ of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the State plus none, $\frac{1}{2}$ or all of the state tax rate (as determined by the State Treasurer). Act 255 expired as an effective statute of the State of Michigan on December 31, 1986. Tax abatements granted to commercial facilities under Act 255 prior to December 31, 1986 have expired.

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under Act 198, removed from the Ad Valorem Tax Roll totaled \$6,859,550 for the fiscal year ending June 30, 2002. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$3,429,775 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

City of Sault Ste. Marie
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2003 Through 2007

Levy	Fiscal Years Ended or		Police and	Refuse		
<u>July 1</u>	<u>Ending June 30</u>	<u>Operating</u>	<u>Fire Pension</u>	<u>Collection</u>	<u>Library</u>	<u>Total</u>
				<u>and Disposal</u>		
2002	2003	\$16.8139	\$2.4161	\$0.5739	\$0.8000	\$20.6039
2003	2004	16.8139	2.7461	0.4200	0.8000	20.7800
2004	2005	16.8139	3.0211	0.4200	0.8000	21.0550
2005	2006	16.8139	3.1484	0.4200	0.8000	21.1823
2006	2007	16.8139	3.2476	0.3208	0.8000	21.1823

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2002 Through 2006

	Fiscal Year Ended June 30				
<u>Governmental Unit</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City of Sault Ste. Marie	\$20.6039	\$20.6039	\$20.7800	\$20.1823	\$21.1823
Chippewa County	8.5720	8.5720	8.5962	8.5273	8.4214
State Education Levy	6.0000	6.0000	5.0000	6.0000	6.0000
Sault Ste. Marie Public Schools...	2.7500	2.7500	2.6200	2.4600	2.1100
Intermediate School District	<u>1.0026</u>	<u>0.9953</u>	<u>0.9952</u>	<u>0.9898</u>	<u>0.9702</u>
Total.....	<u>\$38.9285</u>	<u>\$38.9200</u>	<u>\$37.9914</u>	<u>\$39.1594</u>	<u>\$38.6839</u>

City of Sault Ste. Marie
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2002 Through 2006

	Fiscal Year Ended June 30				
<u>Governmental Unit</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City of Sault Ste. Marie	\$20.6039	\$20.6039	\$20.7800	\$21.1823	\$21.1823
Chippewa County	8.5720	8.5708	8.5962	8.5273	8.4214
State Education Levy	6.0000	6.0000	5.0000	6.0000	6.0000
Sault Ste. Marie Public Schools..	20.7500	20.7500	20.5804	20.4204	20.0704
Intermediate School District	<u>1.0026</u>	<u>0.9953</u>	<u>0.9952</u>	<u>0.9898</u>	<u>0.9702</u>
Total.....	<u>\$56.9285</u>	<u>\$56.9300</u>	<u>\$55.9518</u>	<u>\$57.1198</u>	<u>\$56.6443</u>

-
- (1) *Principal Residence* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Principal Residence includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the Principal Residence includes only 5 acres adjacent and contiguous to the home of the owner. Principal Residence includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Principal Residence also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-Principal Residence* is property not included in the above definition.

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2002 Through 2007**

July 1 <u>Levy</u>	Fiscal Year Ended or Ending <u>June 30</u>	<u>Tax Levy (1)</u>	Collections to March 1 <u>Following Levy</u>	Percent <u>Collected</u>
2001	2002	4,461,233	4,123,257	92.42
2002	2003	4,528,778	4,188,603	92.49
2003	2004	4,654,115	4,348,754	93.44
2004	2005	4,885,476	4,604,561	94.25
2005	2006	5,164,303	4,876,199	94.43
2006	2007	5,414,599	(In Process of Collection)	

(1) Includes all millages levied by the City. Includes certain taxes on properties granted tax abatement under Act 198.

Source: City of Sault Ste. Marie

Homestead means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead* is property not included in the above definition.

Source: City of Sault Ste. Marie

Profile of the Ten Largest Taxpayers

Reflected below are the City's ten largest property taxpayers, their principal product or service and respective Total Taxable Value for the fiscal year ending June 30, 2006.

**City of Sault Ste. Marie
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2006**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>	Percent of <u>Total (1)</u>
Edison Sault Electric Company	Electric Company	\$ 15,974,700	5.88%
DDR Michigan II LLC	Cascade Crossing Shopping Mall	7,605,800	2.80
Pointe West I LP	Development	6,922,956	2.55
Sault Ste. Marie Tribe of Chippewa Indians ..	Various	2,048,301	.75
Key Plastics LLC	Plastics	2,831,100	6.04
Precision Edge Surgical Products	Medical Products	2,603,900	.96
Canal Crossings LLC	Property Development	1,712,537	.63
Ojibway Hotel – Great Lakes LLC	Hotel	1,568,100	.58
Michigan Consolidated Gas Co.	Gas	1,566,600	.58
Sault Express Limited	Hotel	1,510,500	.56
		<u>\$ 44,344,594</u>	<u>16.33%</u>

(1) Based on \$257,544,405 which the City's Total Taxable Value for its fiscal year ending June 30, 2006. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

Source: City of Sault Ste. Marie

(1) Based on \$230,063,384 which the City's Total Taxable Value for its fiscal year ending June 30, 2002. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Tax Abatement" herein.

Source: City of Sault Ste. Marie

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of December 2, 2005.

Debt Limit (1)		\$30,889,310
Debt Outstanding	\$40,009,220	
Less: Exempt Debt (2)	<u>31,400,000</u>	<u>8,609,000</u>
Legal Debt Margin		<u>\$22,280,090</u>

(1) 10% of \$308,893,100, which is the City's Total SEV for the fiscal year ending June 30, 2007. Includes the SEV of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

(2) See "Statutory and Constitutional Debt Provisions" herein.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of November 2, 2006 including the Bonds described herein. Direct debt that is shown as self-supporting is paid from sources other than the City's General Fund.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds that are designated as Unlimited Tax ("UT"). However, the City's ability to levy tax to pay the debt service on the bonds that are designated as Limited Tax ("LT") is subject to applicable charter, statutory and constitutional limitations. See "CITY TAXATION AND LIMITATION" herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated December 11, 2001 (LT)	\$ 2,345,000	\$ 2,345,000	\$ -0-
Dated November 4, 1998 (LT)	2,260,000	2,260,000	-0-
Dated November 29, 1995 (LT)	<u>2,030,000</u>	<u>2,030,000</u>	<u>-0-</u>
Subtotal	<u>\$ 6,635,000</u>	<u>\$ 6,635,000</u>	<u>\$ -0-</u>
Building Authority Bonds:			
Dated June 1, 1997 (LT)	\$ 505,000	\$ -0-	\$ 505,000
Dated March 1, 1994 (LT)	<u>310,947</u>	<u>310,947</u>	<u>-0-</u>
Subtotal	<u>\$ 815,947</u>	<u>\$ 310,947</u>	<u>\$ 505,000</u>
Michigan Transportation Fund Bonds:			
Dated November 1, 2000 (LT)	\$ 720,000	\$ 720,000	\$ -0-
Dated June 1, 1997 (LT)	<u>495,000</u>	<u>495,000</u>	<u>-0-</u>
Subtotal	<u>\$ 1,215,000</u>	<u>\$ 1,215,000</u>	<u>\$ -0-</u>
Tax Increment Bonds:			
Dated April 27, 2005 (LT)			
Subtotal	<u>\$ 5,920,000</u>	<u>\$ 5,920,000</u>	<u>\$ -0-</u>
	<u>\$ 5,920,000</u>	<u>\$ 5,920,000</u>	<u>\$ -0-</u>

CDGB Loan			
Dated July 1, 2005.....	\$ 365,035	\$ 365,035	\$ -0-
Subtotal.....	<u>\$ 365,035</u>	<u>\$ 365,035</u>	<u>\$ -0-</u>
Capital Improvement Bonds:			
Dated November 1 2005 (LT).....	\$ 765,000	\$ 765,000	\$ -0-
Dated March 8, 2005 (LT).....	1,450,000	1,218,000	232,000
Dated October 1, 2002 (LT)	<u>3,300,000</u>	<u>3,300,000</u>	<u>-0-</u>
Subtotal	<u>\$ 5,515,000</u>	<u>\$ 5,263,000</u>	<u>\$ 232,000</u>
Water and Sewer Bonds:			
Dated March 27, 2003 (LT)	\$ 2,885,000	\$ 2,885,000	\$ -0-
Dated September 26, 2002 (LT)	3,115,000	3,115,000	-0-
Dated June 1, 2002 (UT)	2,635,000	2,635,000	-0-
Dated September 28, 2001 (LT)	1,585,000	1,585,000	-0-
Dated September 29, 1998 (LT)	2,850,000	2,850,000	-0-
Dated September 29, 1998 (LT)	3,120,000	3,120,000	-0-
Dated September 30, 1997 (LT)	445,000	445,000	-0-
Dated September 1, 1997 (LT)	540,000	540,000	-0-
Dated September 28, 1995 (LT)	<u>2,310,000</u>	<u>2,310,000</u>	<u>-0-</u>
Subtotal	<u>\$ 19,485,000</u>	<u>\$ 19,485,000</u>	<u>\$ -0-</u>
Installment Purchase Obligations:			
Dated May 24, 2006 (LT).....	\$ 50,366	\$ -0-	\$ 50,366
Dated June 29, 2004 (LT)	7,872	-0-	7,872
Subtotal.....	<u>\$ 58,238</u>	<u>\$ -0-</u>	<u>\$ 58,238</u>
Total.....	<u>\$ 40,009,220</u>	<u>\$ 39,213,982</u>	<u>\$ 795,238</u>
Per Capita Net City Direct Debt (2).....			\$76.38
Percent of Net Direct Debt to Total SEV (3).....			0.36%
Overlapping Debt (4)			
	<u>Gross</u>	<u>City Share As</u>	<u>Net</u>
Sault Ste. Marie Public Schools	\$ 11,035,000	Percent of Gross	\$ 6,515,064
Chippewa County	<u>5,190,000</u>	29.91	<u>1,552,329</u>
Totals.....	<u>\$ 16,225,000</u>		<u>\$ 8,067,393</u>
Per Capita Net Overlapping Debt (2).....			\$557.02
Percent of Net Overlapping Debt to Total SEV (3)			2.61%
Per Capita Net Direct and Overlapping Debt (2).....			\$633.40
Percent of Net Direct and Overlapping Debt to Total SEV (3)			2.97%

(1) Based on the City's 2000 Census population of 14,483.

(2) Based on \$308,893,100 that is the City's Total SEV for the fiscal year ending June 30, 2007. Includes the SEV of property granted tax abatement under Act 198.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

City of Sault Ste. Marie
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2001 Through 2006

	Fiscal Year Ended or Ending June 30					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Sales Tax	\$2,121,000	\$2,068,810	\$1,968,064	\$1,771,162	\$1,747,466	\$1,730,057
Income Tax.....	0	0	0	0	0	0
Liquor Licenses	17,435	16,525	6,405	16,487	17,735	18,167
Total Revenues.....	<u>\$ 2,138,435</u>	<u>\$ 2,085,335</u>	<u>\$ 1,984,469</u>	<u>\$ 1,787,649</u>	<u>\$ 1,765,201</u>	<u>\$ 1,748,224</u>

(1) As projected.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
General Pension System
Five-Year History

Valuation Date <u>December 31</u>	Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Funded <u>Ratio</u>
2001	\$15,814,445	\$17,481,855	110.54%
2002	17,447,662	17,503,766	100.32
2003	18,105,810	18,223,939	110.67
2004	19,779,167	18,890,155	95.51
2005	19,949,324	19,428,237	97.39

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Police and Fire Pension System
Five-Year History

Valuation Date <u>June 30</u>	Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Funded <u>Ratio</u>
2001	\$16,519,263	\$12,323,362	74.60%
2002	17,439,131	12,198,649	69.96
2003	19,043,534 (1)	11,819,254	62.06
2004	19,529,555	11,600,524	59.40
2005	20,238,595	11,590,091	57.27

(1) After changes in actuarial assumptions.

Source: City of Sault Ste. Marie

LABOR CONTRACTS

Approximately 78.40% of the City's permanent employees are represented by labor organizations. The following table illustrates the various labor organizations that represent City employees, the number of members in each and expiration date of the present contract.

	<u>Membership</u>	Current <u>Expiration Date</u>
United Steelworkers of America-Public Works	44	June 30, 2004*
United Steelworkers of America-Clerical	9	June 30, 2006
United Steelworkers of America-Firefighters	15	June 30, 2004*
United Steelworkers of America-Fire Captains.....	3	June 30, 2008
Michigan Fraternal Order of Police Labor Council-Patrol Unit.....	18	June 30, 2008
Michigan Fraternal Order of Police Labor Council-Patrol Unit.....	4	June 30, 2006*
Michigan Fraternal Order of Police Labor Council-Police Sergeant.....	5	June 30, 2005*
Non-Union Employees	<u>27</u>	n/a
Total Permanent City Employees	<u>125</u>	

*In process of negotiation.

Source: City of Sault Ste. Marie

Profile of Major Employers

The table located below reflects the diversity of the ten largest employers in the City by the estimated number of employees and the products manufactured or services provided.

<u>Company</u>	<u>Principal Product or Service</u>	Approximate Number <u>of Employees</u>
Kewadin Hotel and Convention Center.	Casino, hotel with convention center	1,460
War Memorial Hospital.....	Health Care.....	675
Sault Ste. Marie Public Schools	Education.....	365
Wal-Mart Stores, Inc.	Department Store.....	250
Lake Superior State University	Four-year college.....	333
City of Sault Ste. Marie.....	Local Government.....	146
Precision Edge Surgical Products, Inc..	Surgical Instruments.....	110
Army Corps of Engineers.....	Soo Locks.....	130
Glens Market	Grocery Store	110
Key Plastics	Injection Molding.....	222

Source: City of Sault Ste. Marie

*In process of negotiation.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie:

	<u>2001(2)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Employed.....	8,425	6,918	6,982	7,057	7,169	7,284
Unemployed.....	<u>775</u>	<u>658</u>	<u>742</u>	<u>755</u>	<u>716</u>	<u>723</u>
Labor Force.....	<u>9,200</u>	<u>7,576</u>	<u>7,724</u>	<u>7,811</u>	<u>7,885</u>	<u>8,007</u>
Unemployed as Percent of the Labor Force (1)	8.4%	8.7%	9.6%	9.7%	9.1%	9.0%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Career Development.

(2)(1) Average through June 2001.

Source: Office of Labor Market Information – Michigan Department of Career Development

County of Chippewa:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005(2)</u>	<u>2006</u>
Employed.....	16,747	16,246	16,453	16,076	27,309	15,861
Unemployed.....	<u>1,298</u>	<u>1,297</u>	<u>1,430</u>	<u>1,588</u>	<u>941</u>	<u>1,721</u>
Labor Force.....	<u>18,045</u>	<u>17,543</u>	<u>17,883</u>	<u>17,664</u>	<u>18,250</u>	<u>17,583</u>
Unemployed as Percent of the Labor Force (1)	7.2%	7.4%	8.0%	9.0%	5.2%	9.8%

(2) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(3) As of September 2006.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth

State of Michigan:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005(2)</u>	<u>2006</u>
Employed.....	4,886,000	4,691,000	4,674,000	4,719,343	4,832,169	4,766,100
Unemployed.....	<u>271,000</u>	<u>310,000</u>	<u>358,000</u>	<u>359,636</u>	<u>273,538</u>	<u>339,700</u>
Labor Force.....	<u>5,157,000</u>	<u>5,001,000</u>	<u>5,042,000</u>	<u>5,078,979</u>	<u>5,105,707</u>	<u>5,105,807</u>
Unemployed as Percent of Labor Force (1)	5.3%	6.2%	7.3%	7.1%	5.4%	6.7%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) As of September 2006.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 25, 2006

City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

Through our role in performing financial statement services, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the *City of Sault Ste. Marie* (the "City") for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to internal controls and financial reporting responsibilities of the City. This letter does not affect our report dated October 25, 2006 on the financial statements of the City.

We have already discussed these comments with the City Manager and Finance Director, and we would be pleased to discuss them in further detail at your convenience.

Best wishes for a successful 2006-2007.

CITY OF SAULT STE. MARIE

COMMENTS AND RECOMMENDATIONS

JUNE 30, 2006

SINGLE AUDIT REQUIREMENTS

The City is subject to federal compliance requirements (Single Audit in accordance with the provisions of OMB Circular A-133) if expenditures of federal awards exceed \$500,000 for the year. As part of the Single Audit, a schedule of expenditures of federal awards must be prepared. In order for the City to continue to receive federal funds, it is critical that this schedule be completed thoroughly and properly. This schedule is included with the City's audited financial statements. Information from this schedule is then required to be transmitted to the U.S. Department of Commerce via a Data Collection Form. It is necessary for the City to identify the following in order to prepare the schedule:

- The amount of each federal award or grant
- The name of the federal agency (such as U.S. Department of Justice) and, if applicable, the pass-through agency (such as the Michigan State Police)
- The award or grant program title
- The Catalog of Federal Domestic Assistance (CFDA) number of the award or grant
- The program or award grant number
- The amount of the federal award or grant expended during the year

During our audit procedures, numerous inquiries were necessary of various departments in order to obtain the above required information. Research was necessary to determine if pass-through funds from various state agencies were from federal sources. Also, financial statement reclassification of certain grants between state sources and federal sources was necessary. We would recommend setting up separate accounts for the federal and state portions of grants funded by both sources.

We recommend that the City's accounting department obtain the above information when federal awards or grants are received, rather than waiting until the year end audit to track down the information. The accounting department may consider creating a standard form that must be completed with the required information. The City's various departments could then complete the form when federal awards or grants are obtained. Following this procedure, the City will have these revenues properly classified as federal or state and would be able to prepare a draft schedule of expenditures of federal awards.

RECLASSIFICATION OF CAPITAL ASSETS AND RELATED DEBT AMONG FUNDS

During the year ended June 30, 2006, the downtown parking deck project was completed. Prior to completion, the construction and related \$6 million bond were accounted for in the Capital Projects Fund. However, when complete, the project cost and related debt was allocated to the Parking Deck Enterprise Fund. We also noted that the Dillon/Washington Way bond was reclassified from a capital projects fund to the Water and Sewer Enterprise Fund during the year. Because different accounting principles are used for capital project funds (modified accrual basis) and enterprise funds (accrual basis), additional audit procedures were necessary to properly account for these transactions.

We recommend that when the City embarks on a project that is intended to ultimately be classified into an enterprise fund, that the City account for that project in an enterprise fund from the inception of the project.

CURRENT TAX COLLECTION BANK ACCOUNT

According to the Michigan Department of Treasury separate cash and investment accounts are required for current tax collections. While auditing cash we noticed that the cash in the Trust and Agency Fund is included in pooled cash. We recommend that you establish a separate bank account for current tax collections in order to comply with the standards set forth by the Department of Treasury.

AMBULANCE RECEIVABLES

The Sault Ste. Marie Fire Department entered into a service agreement with War Memorial Professional Billings Services (“Billing Service”) effective January 1, 2005 for billing services related to ambulance runs. The City records an account receivable based on information provided by the Billing Service. An allowance for uncollectible accounts estimate is made and recorded annually at year end. This allowance is based on an estimate of amounts not expected to be collected for ambulance services provided, including contractual write-offs and bad debts.

As one of our audit procedures for the ambulance receivables and allowance, we requested an aging report from the Billing Service for October 2006 (reports were not available for June 30, 2006). The amount of the ambulance billing receivables over 91 days past due is approximately \$242,000, which included approximately \$162,000 with an aging of 181 days to 365 days or more. We believe that once a receivable is over 90 days old, it becomes increasingly difficult to collect. At June 30, 2006, the City had recorded approximately \$152,000 as an allowance for uncollectible accounts.

We recommend that the Billing Service provide a detailed aging report each month to the City and that the City closely monitor this report. The City should evaluate the estimated allowance for uncollectible accounts based on the information presented. We recommend that the City maintain regular contact with the Billing Service to encourage aggressive pursuit of outstanding balances.

Additionally, the write-off of bad debts is customarily initiated and approved by the Fire Chief. We recommend that, in addition to the Fire Chief’s approval, write-offs in excess of a given amount be reviewed and approved by an appropriate member of the City on a monthly or quarterly basis. The approval should be indicated by a signature or initials on the voucher recording the write-off.

EXPENDITURES

In order to keep the City's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the City's management familiarize themselves with this list in order to prevent the potential for illegal or unauthorized expenditures of the City's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the City Hall.
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized with statutory procedures for an increase in salary.
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

In addition, according to the Michigan Department of Treasury, the legislative body (board or council) must approve *all* invoices prior to payment, unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

INTERNAL CONTROL PROCEDURES – DECENTRALIZED OPERATIONS

In addition to the business activity conducted at City Hall, several decentralized operations take place throughout the City including the Pullar Ice Center, the Marina, the Cemetery, the Fire Hall and Minneapolis Woods. Each location collects certain amounts of cash related to charges for services or user fees. Cash from these locations is then periodically deposited at City Hall.

The internal control challenges that arise from cash collections at decentralized locations is in the process of documenting and enforcing the procedures for receipting and depositing the cash, the ability of management to monitor the amounts collected for purposes of ensuring that all cash collected at City locations gets deposited in City accounts and recorded in the City financial accounting system, and the timeliness of the deposits. Other than the Ambulance runs, most amounts collected at the decentralized locations is truly cash (as opposed to checks and wire transfers) in nominal amounts which are relatively easy to misappropriate. Certain situations arose to management during the current year which brought the need for improved documentation of internal control procedures, specifically cash receipting procedures, as relates to certain of the decentralized operations. We recommend that management evaluate the cash collection and receipting procedures at all facilities located outside of City Hall to ensure proper segregation of duties occur between the cash receipting and depositing functions,

procedures are in place to document each receipt collected, a cash reconciliation process occurs at the end of each day and that the reconciliation, together with the cash collected, is delivered to City Hall for recording and depositing on a daily basis. Appropriate revisions to cash receipting and depositing procedures at these locations should be made and communicated to all employees.

Please note that any instances of fraud, embezzlement and illegal acts should be reported to the Michigan Department of Treasury's Local Audit and Finance Division ("LAFD").

MICHIGAN FINANCE QUALIFYING STATEMENT

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Michigan Department of Treasury's website. The Qualifying Statement is due to the Michigan Department of Treasury no later than December 31, 2006.

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

The Michigan Department of Treasury (the "Treasury") has issued Numbered Letter 2004-5 which requests (under the authority of Michigan Compiled Law 141.427(1)) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. The electronic submission should include the audited financial statements, the auditing procedures report (496), data collection form and management comment and recommendation letter. We have provided the necessary information, in this electronic format, to the Finance Director to enable the City to comply. The financial statements must be submitted by December 31, 2006.

SEC RULE 15C-12 DISCLOSURE REQUIREMENTS

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The City is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

CONCLUSION

It has been a pleasure to provide audit services to the *City of Sault Ste. Marie*. Management was prepared for the audit, providing us with all supporting documents requested on a timely basis. The City's finance department is friendly, conscientious and very helpful.

We appreciate your business! Thank you.